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**The behaviour of
the general public in applying for IPO shares:
A Survey in Hong Kong**

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Abstract

When firms go public, getting a huge number of applicants for the Initial Public Offering (IPO) shares tends to be a good way to advertise the firm and/or to cultivate the brand name of the firm. Indeed, the behaviour of the general public dictates the strategies that firms are going to employ to attract more subscriptions for their new shares. This paper investigates some of the determinants of the general public's behaviour in the demand for IPO shares, using questionnaire survey data in Hong Kong. Data were collected by means of a survey during the first two weeks of October 2006, in which 3,120 randomly selected respondents were successfully interviewed. Using an ordered probit model, this paper aims to answer the following questions: (1) What are the determinants of the general public's investment behaviour in applying for IPO shares? (2) How can firms make use of these determinants to attract more applications for IPO shares? and (3) How can Hong Kong strengthen its IPO fund-raising market?

The behaviour of the general public in applying for IPO shares: A survey in Hong Kong

1. Introduction

As an international financial centre, Hong Kong is one of the fastest-growing stock markets for Initial Public Offering (IPO) fund-raising. According to the World Federal Exchange¹ (2006), the Hong Kong stock exchange has become the world's second largest market for IPO fund-raising after London. During 2006, there were a total of 59 IPOs, raising a total of US\$42.8 billion (Securities and Futures Commission, 2007). The average gain for the 59 IPOs was 26% on debut.

Retail investors in Hong Kong have always been keen to demand IPOs and to invest in different kinds of products. In 2005, the Securities and Futures Commission (SFC) conducted a retail investor survey to estimate the retail participation in different investment products and explore the investment behaviour of retail investors (SFC, 2006). Their survey found that 36.8% of Hong Kong adults traded investment products, and the most popular investments were Hong Kong stocks (28.3%). In addition, 71.7% of investors had subscribed for shares in IPOs.²

The sixth annual Investment Market Monitor Survey was conducted by the Hongkong and Shanghai Banking Corporation from March to May 2007. The survey found that, in Hong Kong, retail investors were increasingly younger and female. Investors with monthly personal incomes below HK\$10,000 (about US\$1,250) grew to

¹ <http://www.world-exchanges.org/>

²The SFC conducted a survey to collect investors' views on sponsors and sponsor regulation in 2004. A total of 1623 individuals aged 18 years or above were successfully interviewed, of which 47.1% were identified as retail investors and 79.7% of the retail investors had subscribed for shares in IPOs.

31% from 22%.³

Stock market fever is spreading to all the general public. Recently, Mainland e-commerce giant Alibaba.com received a total of 566,216 applications pursuant to the Hong Kong Public Offering—representing approximately 10% of the population over 19 years of age⁴—and an oversubscription of about 257 times, freezing about US\$57.4 billion. Alibaba.com priced its offer at the high end of the indicated range, at HK\$13.5 per share, and rocketed 192.6% to close at HK\$39.5 per share. Considering the recent near-frantic IPO activities and the growing importance of Hong Kong’s role as a fund-raising market, Hong Kong is an ideal place to study the IPO process.

There has been a substantial body of research conducted that focuses on three main areas: (1) short-run underpricing of IPOs; (2) long-run underperformance of IPOs; and (3) ‘hot issue’ market phenomenon.⁵ While most of the empirical IPO research relies on publicly available stock return data and data contained in the exchanges’ filings, surveys are another method of gathering information on the IPO process. To study the pattern of investor behaviour, Shiller (1988) undertook a questionnaire survey of IPO investors. By analyzing the data of 309 respondents, Shiller developed the ‘impresario hypothesis’, i.e., underwriters deliberately underprice IPOs to obtain publicity and promote enthusiasm. Another suggested hypothesis is the ‘investor risk perception hypothesis’, which argues that due to the great uncertainty of the price in the aftermarket, investors in IPOs must be compensated for this uncertainty.

Brau and Fawcett (2006) surveyed 336 chief financial officers to compare practice

³The Standard Finance, 26/10/2007, ‘Investors becoming younger and female.’ Website: <http://finance.thestandard.com.hk/en/index.asp>

⁴The mid-2007 population of age above 19 is 5,568,300. Census and Statistical Department.

⁵For details, see Ritter and Welch (2002) and Varshney and Robinson (2004).

to theory in the areas of IPO motivation, timing, underwriter selection, underpricing, signalling and the decision to remain private. Their survey findings support the academic theory of the IPO process. Nevertheless, there is relatively little literature on using questionnaire surveys to study the IPO process. Therefore, we hope that this paper can contribute to the understanding of the determinants of the general public's behaviour in applying for IPO shares.

In this study, we extend the IPO literature by analyzing unique data from surveys of 3,120 randomly selected respondents in Hong Kong. Data were collected during the first two weeks of October 2006. Using an ordered probit model, we will analyze the data to discover some of the determinants of the general public's investment behaviour in applying for IPO shares. Based on the empirical results, we will make conclusions and suggest some ways to secure and strengthen Hong Kong's role as a leading IPO fund-raising market internationally.

The remainder of this paper is organised as follows: Section 2 describes the survey and questionnaire design used to collect the empirical data; Section 3 constructs the model; Section 4 discusses the empirical results; and Section 5 contains the conclusion and implications.

2. Survey

2.1 Questionnaire Design

Data were collected by means of a survey conducted by Shue Yan Economics and Well-being Research during the first two weeks of October 2006. There were 3,120 randomly selected respondents who were successfully interviewed: 1,870 respondents

applied for IPO shares in the period October 2005 to September 2006, and 1,250 respondents did not apply for IPO shares in the same period. The margin of sampling error was estimated to be $\pm 1.79\%$ at a 95% confidence level. Since the majority of Hong Kong's population is Cantonese-speaking, the original questionnaire was written in Chinese.

The questionnaire consisted of three main parts, and respondents' answers were ranked using ordinal scale. The first part of the questionnaire collected respondents' personal information, including: gender, age, education level and personal monthly income.

The second part of the questionnaire focused on the behaviour of retail investors in applying for IPO shares. The first question in this section dealt with the frequency with which respondents applied for IPO shares: 'Have you applied for IPO shares in the last year (October 2005 – September 2006)?' If respondents answered 'Yes', they were asked to provide the approximate number of times they applied for IPO shares. If respondents answered 'No', they were directed to the third part of the questionnaire.

The remaining questions in part 2 of the questionnaire reviewed some of the possible determinants of investor behaviour. The following questions were asked:

- 'Do you consider yourself an experienced investor?'
- 'Do you consider the information from mass media to be the most important information affecting your decision to apply for IPO shares?'
- 'Have you studied the company prospectus of the IPO?'
- 'Have you ever used the electronic channel method (eIPO) to apply for IPO shares?' If respondents answered 'Yes', they were asked to provide the approximate number of times they used eIPO.
- 'Have you ever applied for IPO shares using margin account (borrowing)?' If respondents answered 'Yes', they were asked to provide the approximate number of times.
- 'If you have been allocated shares, when will you (or when do you expect to) sell the shares?'

Part 3 of the questionnaire reviewed factors that may have affected the behaviour of the respondents. The two questions in this section looked at the influence of family and friends on respondents' decisions to apply for IPO shares:

- 'Have any of your family members applied for IPO shares in the last year?'
- 'Have any of your friends applied for IPO shares in the last year?'

2.2 Observations from data collected

The data showed that 29.1% of retail investors applied more than 3 times for IPO shares; the highest number of applications was 30. Most of the investors did not consider investing in IPOs to be a long-term investment. 7.1% of investors sold the allotted shares on debut and most of them (69.8%) sold the shares within one year. 56.4% of investors considered investing in IPOs to be low risk (41.3%) or very low risk (5.9%) and most of them were satisfied with the return (91.3%).

Only 6.4% of respondents considered the company prospectus to be the most important source of information affecting their decision to apply for IPO shares, and only 33.9% studied the company prospectus before subscription. Of these 33.9% investors, more than half (53%) spent less than 20 minutes reading the detailed prospectus. Most investors surveyed considered mass media (43.3%) and family members and friends (30.1%) to be the most important sources of information when subscribing for IPO shares.

We believe that there is a group of retail investors applying for IPO shares regularly and strategically. Their strategy might be to apply more often for IPO shares in a hot market and sell the shares earlier, to gain higher accumulated returns.

3. Model

This study looks at the factors affecting the frequency with which a retail investor applies for IPO shares (Dependent Variable). To avoid the problems of outliers, the logistic method is more preferable to OLS. The dependent variable (IPO) is being reconstructed as ordered variables: '1' is assigned to 'applying for IPO shares once or twice in the past year'; '2' is assigned to 'applying for IPO shares three to nine times in the past year'; and '3' is assigned to 'applying for IPO shares ten times or more in the past year.'

This paper uses the commonly used ordered probit model (see Miyata 2003, Greene 2000) to handle the ordinal scale dependent and independent variables.

$$IPO = X_i \beta' + \varepsilon_i \quad (1)$$

where IPO is the frequency of applying for IPO, X is the vector of the independent variables also in the ordinal scale, β' is a vector of the coefficients to be estimated, and ε are independent and identically distributed random variables. The subscript i indicates an individual.

$$IPO_i = \left\{ \begin{array}{l} 0 \quad \text{if } IPO_i \leq \gamma_0 \\ 1 \quad \text{if } \gamma_0 < IPO_i \leq \gamma_1 \\ 2 \quad \text{if } \gamma_1 < IPO_i \leq \gamma_2 \end{array} \right\} \quad (2)$$

Since both dependent and independent variables are in ordinal scale, the empirical model to be estimated becomes an ordered probit model (see Miyata 2003, Greene 2000).

It follows that the probabilities of observing each value of IPO_i are given by

$$\Pr(IPO_i=0 | X_i \beta, \gamma) = F(\gamma_0 - X'_i \beta) \quad (3)$$

$$\Pr(IPO_i=1 | X_i \beta, \gamma) = \Phi(\gamma_1 - X'_i \beta) - \Phi(\gamma_0 - X'_i \beta) \quad (4)$$

$$\Pr(IPO_i=2 | X_i \beta, \gamma) = \Phi(\gamma_2 - X'_i \beta) - \Phi(\gamma_1 - X'_i \beta) \quad (5)$$

where F is the cumulative distribution function of ε and γ represents the limits of IPO .

The log likelihood function to be maximised is:

$$l(\beta, \gamma) = \sum_i^n \sum_j^5 \log(\Pr(IPO = j | X_i, \beta, \gamma)) \cdot 1(IPO = j) \quad (6)$$

The magnitude of the coefficient (β) does not reveal the direct effect of the independent variables (X'_i) on the dependent variable. The estimated coefficients β only influence the conditional probability that a certain value of the dependent variable will appear. A positive estimated coefficient indicates that an increase in the ordinal scale of the independent variable influences the dependent variable in such a way that the conditional probability of the dependent variable falling into a higher ordinal scale increases, while the opposite occurs in the case of a negative estimated coefficient (see: Boccaletti and Moro, 2000).

In cases where the independent variables are discrete, the discrete change in the conditional probability can be evaluated as the average of the independent variables (Rivera, 2001). Table 1 defines the variables.

Insert Table 1

3.1 Explanatory variables:

Table 2 provides a statistical summary of the variables used in this paper.

Insert Table 2

3.1.1 FEMALE: Gender

Although there is no evidence that females and males behave differently when applying for IPO shares, some empirical findings reveal that there are differences between men and women in observed financial issues. For example, males invest more aggressively than females (Bajtelsmit and Bernasek, 1996); men are more likely than women to be satisfied with their present financial situation (Hira and Mugenda, 2000); and males are more over-confident than females, which results in more frequent trading by males

(Barber and Odean, 2001). However, recent studies such as Goldsmith and Goldsmith (2006) have found that although male students know more than female students about investment, formal instruction in personal finance not only enriches both men and women's investment knowledge, but also reduces the knowledge gap between the genders.

3.1.2 AGE: Investors' age

There is a vast amount of literature that documents the fact that investment behaviour, including buying IPO shares, correlates to the age of the investor. The common description of the relationship between investment behaviour and age is that as investors age, their tolerance for risk in investment declines, thus influencing their investment behaviour. Pendleton (2005) found that age, the reasons for participation and investment portfolios are the three most important influences on an investor's decision to retain stock. Longman (2004) reported that aging countries such as Italy, France and Japan are marked by exceptionally conservative investment. He stated that older investors take fewer risks with their investments, so as a population ages, investor preference shifts toward safe investment or cashing out investments and spending down savings. Finke and Huston (2003) explored the relationship between net worth and net financial assets and risk tolerance, using data from the 1998 Survey of Consumer Finances (SCF). Risk tolerance among those over age 65 was the strongest predictor of a higher net worth. Grable and Lytton (2001), in their review of 17 studies that used risk tolerance as a measure, reported that age was one of the factors related to risk tolerance. Hawley and Fujii (1993) investigated the effect of demographic and financial characteristics on financial risk tolerance. Using 1983 SCF data and ordered logit analysis, one of their findings showed

that respondents age 55 and older were less risk-tolerant than younger households. Riley and Chow (1992) found that an investor's relative risk aversion was dependent on the investor's age, wealth and income. Consistent with the literature, this paper examines the hypothesis that the age of the investors affects their decision to apply for IPO shares.

3.1.3 EDU: Investors' education level

Investment behaviour, including buying IPO shares, relates to the education level of the investors. Guiso and Jappelli (2005) found that the probability that survey respondents were aware of stocks, mutual funds and investment accounts was positively correlated with education, household resources, long-term bank relations and "proxies for social interaction". Moreover, Guiso, Haliassos and Jappelli (2003) found that stock market participation correlated robustly with wealth and education. This paper examines the hypothesis that there is a relationship between education and the behaviour of investors in applying for IPO shares.

3.1.4 INCOME: Investors' personal monthly income

If investors have higher incomes, they can save more money, which they can then use for different kinds of investment, including IPO. Hence, the higher an investor's income, the higher the conditional probability that the investor will apply more often for IPO shares.

3.1.5 EXP: Investors' experience in applying for IPO shares

As revealed in Staw (1981), Schwenk (1984) and Frensch and Sternberg (1989), experts obtain only the type of information with which they are familiar, and they process this information in a routine, habitual manner. This can result in rigid decision behaviours, although judgment bias may occur. Rosman, Lubatkin and Hugh (1994), however, argue

that it is inappropriate to say that individuals show either exclusively rigid or non-rigid decision behaviours. Hence, there is need to study the experience effect on new shares subscription.

3.1.6 MEDIA: Investors consider media to be the most important source of information affecting their decision to apply for IPO shares

The power of the media can help change behaviour.⁶ As mentioned by Downs (1957), individual agents in various situations face a rational ignorance paradox, i.e., the cost of becoming informed exceeds the personal gain from the information. Since the role of the media is to gather, select, verify and repackage information, investors themselves do not need to spend much time collecting all of the information. Instead, they only pay the opportunity-cost of the time spent reading. Becker and Murphy (1993) and Dyck, Moss, and Zingales (2005) even found that for hot or titillating topics, if news and entertainment were strongly complementary, the media could make the cost of absorbing information negative by packaging news appropriately.⁷ Using the above reasons, the costs of collecting information for IPO investment decision-making are therefore significantly reduced. We believe that if mass media is the most important source of information affecting an investor's decision to apply for IPO shares, the conditional probability would be higher than the investor would apply more often for IPO shares.

3.1.7 FAMILY: Investors' family members have applied at least once for IPO shares in the past year. FRIENDS: Investors' friends have applied at least once for IPO shares in the past year

Social learning theory asserts that an individual develops his/her values, attitudes and

behaviours during interaction with people such as family members, teachers, friends and co-workers (Bandura, 1986). Using a random sample of white-collar employees of a national insurance company, Loibl and Hira (2004) supported the theory that financial conversations between people can stimulate self-directed learning, which, in turn, improves an individual's financial knowledge and financial beliefs.

In the case of applying for IPO shares in Hong Kong, if one of an investor's family members or friends have experience in IPO investment, other family members and friends are likely to take part in this type of investment as well, due to the 'close' relationships with family and friends in Chinese culture. This is particularly true if the friend/family member has made money, as this person will be seen as more credible (the investors will not believe people who lose money).⁸ John Maynard Keynes said that picking shares was like a beauty competition, where 'it's important to choose not whom you think is the prettiest but whom everyone thinks is the prettiest.'⁹ Hence, investors' investing decisions may be influenced by the so-called 'herd movement' rather than by rational analysis.

Moreover there was high multiples of oversubscription in the last year., If a family member wants to apply for IPO shares and have a good chance of getting at least one lot, he/she may encourage all family members to apply. In some cases, the allocation policy of some companies is 'one person, one lot', so this may be an incentive for all family members to act as a whole in applying for IPO shares. If an investor's family members have experience in IPO investment, it is more likely that the investor will apply more

⁶ See Levitt (1999) for details.

⁷ See Dyck and Zingales (2006) for details.

⁸See Matassini and Franci (2001) for details.

⁹ For details, see http://findarticles.com/p/articles/mi_qa3724/is_20070609/ai_n19287898

often for IPO shares.

3.1.8 PROSP: The respondent read the company prospectus before applying for IPO shares

Agarwal, Liu and Rhee (2003) believed that investor demand for IPO shares was largely driven by investors' overreaction to the information contained in the IPO prospectus.

A survey conducted by SFC in 2005 showed that 71.5% of retail investors considered the company prospectus to be an important source of information for making investment decisions (SFC, 2006).

3.1.9 eIPO: Investors use the electronic channel to make new shares subscription

By comparing the trading and marketing activities of online IPOs to a matched sample of traditional IPOs, Piwowar, Strader and Carter (2004) developed a hypothesis that the introduction of online IPOs improves the provision of liquidity in after-market trading. In Hong Kong, 28.3% of stock investors traded stocks online in the period of 2003–2005. Male, younger or more educated investors were more likely to conduct online trading (SFC, 2006).

Electronic Initial Public Offerings (eIPO) is a new method of IPO subscription in Hong Kong. It is a secure, convenient, efficient and cost-effective method of shares subscription. With eIPOs, there is no need to complete a paper application form and deposit it with one of the few appointed banks or securities firms.

The eIPO was first introduced in May 1999 by the Hong Kong Securities Clearing Company (HKSCC), a wholly-owned subsidiary of HKEx. Shares allotted through eIPO are issued in the name of HKSCC Nominees Limited. The certificates are deposited into

the Central Clearing and Settlement System (CCASS) Depository directly by the issuer, and the allotted shares are credited to the stock accounts of CCASS participants on the same day. These shares are immediately available for sale and settlement on the first trading day.

The use of the CCASS eIPO service has increased significantly since its inception. Between 1999 and 2002, only about 11 per cent of the Initial Public Offerings used eIPO. In 2005 and 2006, this percentage had increased to around 48 and 62 per cent respectively.

In 2000, a new form of eIPO, the White Form eIPO, was introduced for the Mass Transit Railway Company (MTRC). Investors can access the website (<http://www.eipo.com.hk>) to read the prospectus, complete the application form electronically, receive a Payment Reference Number and then effect payment via electronic payment channels. Applicants receive an acknowledgement email within 24 hours of the announcement date, and then successful applicants are advised of the allotment results by email. Successful applicants will have shares issued in their own names.

There were 56 IPOs in 2006. In our survey, 23.3% of investors used eIPO. Given the convenience and cost-effectiveness of eIPOs, if investors use this method to make new shares subscription, it is more likely that they will apply more often for IPO shares.

3.1.10 MARGIN: Investors take out loans for new shares subscription

Through IPO margin financing, an investor can borrow funds to apply for more IPO shares in the application. If the investor applies for more shares and is successful in his/her application, he/she will be allotted more shares. In the event of oversubscription,

the investor will only be charged on the borrowed funds. Those investors who apply for IPO shares using margin financing are considered to be risk-takers. In 2006, there were a lot of underpriced new listed shares (SFC, 2006); however, considering the comparatively small amount of interest charged in margin financing, there were still attractive returns available to compensate investors for the risk they took. As a result, it was more likely that the investors would apply more often for IPO shares. However, despite the potential reward, subscribing for IPO shares on margin was not very popular in Hong Kong. Out of 71.7% of stock investors subscribing for IPO shares, only 7.8% had subscribed on margin.

3.1.11 TIME: The period investors sell their distributed shares after allocation, from short to long

Shiller (1988) reported that the average period an IPO was held from the date of purchase to the date of sale ranged from 48.5 to 68.4 weeks. The shortest period ranged from 21.3 to 38.4 weeks. Investors want to earn ‘quick money’; if they can earn a profit from the IPO, even just a few percentages, they will sell the shares as soon as possible. The more often they apply for IPO shares and the earlier they sell those shares, the higher the accumulated returns.

Investors may also use margin financing to apply for IPO shares because of the high rates of oversubscription. Then, if they are allotted more shares than they expect, they may sell the shares quickly in order to repay the money borrowed, or to have money to apply for future IPOs.

Overall, if investors sell their allotted shares from IPOs in a shorter period of time, it is more likely that they will apply more often for IPO shares.

4. Empirical result

Insert Table 3

Table 3 shows that the variables gender (FEMALE), age (AGE) and personal monthly income levels (INCOME) are insignificantly different from zero at all conventional significant levels.

The coefficient for the investor's education level (EDU) is significant and negative. This indicates that if investors have a higher level of education, they are more likely to apply more often for IPO shares than investors with a lower level of education.

The coefficient for the experience of investors (EXP) is significant and positive. This indicates that if investors consider themselves to be experienced investors, they are more likely to apply more often for IPO shares than inexperienced investors.

The coefficient for using the electronic channel to apply for IPO shares (eIPO) is significant and positive. This indicates that eIPO users are more likely to apply more often for IPO shares than non-eIPO users.

The coefficient for investors taking out loans to apply for IPO shares (MARGIN) is significant and positive. This indicates that the margin account user is more likely to apply more often for IPO shares than the non-margin account user.

The coefficient for the timing of selling the allocated IPO shares (TIME) is significant and negative. This indicates that investors who sell their shares in a shorter period of time are more likely to apply more often for IPO shares.

The coefficient for media (MEDIA) is significant and positive. This indicates that if investors consider mass media to be the most important source of information, it is more likely that they will apply more often for IPO shares.

The coefficient for reading company prospectus (PROPUS) is significant and positive. This indicates that investors who read a company's prospectus are more likely to buy IPO shares than those who do not read a company's prospectus.

The coefficients for 'investors' family members have applied at least once for IPO shares in the past year' (FAMILY) and 'investors' friends have applied at least once for IPO shares in the past year' (FRIENDS) are significant and positive. This indicates that if an investor's family or friends apply for IPO shares, the investor is more likely to buy IPO shares as well.

5. Conclusion and Implications

There are several findings that came out of this study. The first finding is that if investors consider mass media to be the most important source of information, they are more likely to apply more often for IPO shares. During 2006, of the US\$42.8 billion raised by the 59 IPOs, US\$37.8 billion (88% of the total) was raised for 25 Mainland companies (H-shares and red chips). These Mainland companies cover different sectors and sell a variety of products, and most retail investors in Hong Kong are not familiar with the products or the backgrounds of these companies. We suggest that these companies make good use of aggressive advertising strategies to attract more applications for IPO shares; subsequently, they can price their IPO at the high end of the indicated range. Informative and persuasive advertising are advised in order to reduce the investors' cost of searching for information and to affect the general public's decision to apply for IPO shares.

The second empirical finding shows that the determinant eIPO is significantly

related to the frequency of IPO subscription. This implies that encouraging investors to use electronic means to apply for IPO shares may enhance the development of the IPO market. Moreover, the companies, sponsors, banks and securities firms play an important role in promoting the use of eIPO. They can work together and offer the electronic channel for investors to apply for IPO shares. Based on the advantages of eIPO (convenience, efficiency and cost-effectiveness), we believe that the eIPO method of subscription will become more popular, and the IPO market will become stronger.

The third empirical finding supports the idea that investors who use margin financing to apply for IPO shares are more likely to apply more often for IPO shares. The business of IPO margin financing has flourished recently in Hong Kong. On one hand, from the investors' point of view, margin financing can maximise the investment return. Margin financing can help investors boost the subscription of shares, or at least increase the probability of success in the allocation of 'hot issues' (for Alibaba.com, only 6% of retail investors applying for one lot were successful in their application).

The maximum financing amount offered by most of the banks and securities firms is 90% of an investor's subscription amount. Investors should deposit 10% of the total subscription amount. The interest expenses on financing are calculated from the deadline date of IPO application up to the refund date. Provided that the gain for the IPO on debut is over 10% (the average gain for 59 IPOs was 26% on debut during 2006), investors can earn a profit. Therefore, the risk to investors in using IPO margin financing is rather low, especially for some hot issues which are oversubscribed several hundred times.

On the other hand, the risk of margin financing to banks and securities firms is even lower than the risk to investors. The banks may have a higher risk of losing money if the

oversubscription is below 10 times (the situation rarely happens) because the banks and securities firms need to lend the investors to purchase the over-allotted IPO shares. This may be the reason why there is keen competition among banks and securities firms to provide IPO margin financing for hot issues. However, relatively few investors use IPO margin financing (5.8%). Therefore, we suggest that banks and securities firms be more aggressive in promoting this line of business; we believe that investors will find IPO margin financing to be an attractive option, and this will increase the demand for IPO shares.

The final empirical result shows that if an investor's family members and friends apply for IPO shares, the investor will be more likely to apply more often for IPO shares. This finding supports the social learning theory that financial conversations between individuals stimulates self-directed learning and improves an individual's financial knowledge and financial beliefs. In addition, the 'close relationship' of family members and friends in Chinese culture will affect an investor's decision to apply for IPO shares; this reinforces the so-called 'herd movement'.

According to our survey data, only 24.8% of investors claimed to be experienced investors, and only 12.1% of the general public thought that the HKSAR Government has provided enough investment education for them. With the sustained and rapid economic growth in China, there will be more Mainland companies (and hopefully international companies) seeking funds in Hong Kong. In order to strengthen Hong Kong's IPO fund-raising market, we suggest that the government devote more resources towards investment education for the general public.

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Table 1: Definition of Variables

Variables	Definition
<i>Dependent variables</i>	
IPO	The frequency with which an individual investor applies for IPO shares (Dependent Variable). ‘1’ is assigned to ‘applying for IPO shares once or twice in the past year’; ‘2’ is assigned to ‘applying for IPO shares three to nine times in the past year’; and ‘3’ is assigned to ‘applying for IPO shares ten times or more in the past year.’
<i>Independent (explanatory) variables</i>	
FEMALE	= 1 if female.
AGE	Age of the respondent, from young to old.
EDU	Education level of the respondent, from low to high.
INCOME	Personal Monthly Income of the respondent, from low to high.
EXP	=1 if the respondent claims himself/herself as an experienced investor.
MEDIA	=1 if media is the most important source of information affecting the respondent’s decision to apply for IPO shares.
FAMILY	=1 if the respondent’s family members have applied at least once for IPO shares in the past year.
FRIENDS	=1 if the respondent’s friends have applied at least once for IPO shares in the past year.
PROSP	=1 if the respondent reads company prospectus before applying for IPO shares.
eIPO	=1 if the respondent uses the electronic channel to make new shares subscription.
MARGIN	=1 if the respondent takes out loans for new shares subscription.
TIME	The period (weeks) the respondent sells his/her distributed shares after allocation, from short to long.

Table 2: Descriptive statistics of respondents that bought IPO shares in the last year (October 2005 – September 2006)

	Mean	Standard deviation	Max	Min
FEMALE	0.5182	0.4998	1	0
AGE	2.7471	1.4329	6	1
EDU	2.8786	1.0892	4	1
INCOME	2.2193	0.9470	5	1
EXP	0.3567	0.4791	1	0
IPO	1.5342	0.6160	3	1
MEDIA	0.4374	0.4962	1	0
PROSP	0.3390	0.4735	1	0
eIPO	0.2332	0.4230	1	0
MARGIN	0.0578	0.2333	1	0
TIME	3.5780	1.2624	5	1
FAMILY	0.5743	0.4946	1	0
FRIENDS	0.6567	0.4749	1	0
Note: N=1870				

Table 3: Ordered Probit Regression: Factors affecting the frequency of applying for IPO shares

		Estimated Coefficients	Std. Error	Wald
Threshold	[IPO = .00]	.439*	.197	4.971
	[IPO = 1.00]	2.199***	.207	113.136
Variables	FEMALE	.081	.070	1.336
	AGE	.045	.025	3.218
	EDU	-.082**	.035	5.504
	INCOME	-.015	.039	.140
	EXP	.574***	.079	53.197
	MEDIA	.166**	.070	5.594
	eIPO	.620***	.084	53.979
	MARGIN	.754***	.148	26.050
	TIME	-.131***	.028	21.252
	PROSP	.176*	.078	5.150
	FAMILY	.189**	.078	5.920
	FRIEND	.367**	.120	9.354
	Note: N = 1,870, *p<0.05. ** p<0.01. ***p<0.001, Pseudo R ² (Nagelkerke) = 0.25, LR χ^2 (df) = 287.06*** (12)			

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