

CHAPTER I

INTRODUCTION

1.1 Research Background

Many investors choose stocks that have first caught their attention. Barber and Odean (2008) and Da *et al.* (2009) said that attention is a scarce resource. Attention is the cognitive process of selectively concentrating on one aspect of the environment while ignoring other things (Anderson, 2004 as cited in Chen and Yu 2013). Odean (1999) explains that investors limiting their search of stock that have recently caught their attention to manage the problem from the huge of alternatives. So, when investors have a lot of alternatives, attractive alternatives are more to be considered and chosen. And the way investor limiting their search is depend on their preferences.

Investors have to make a decision to where and when they invest their resources by considering the risk, expected return and which securities they choose. Basically, when we want to choose a stock, we can consider about two analyses, which is fundamental and technical analysis. According to Liaw (2004) Fundamental analysis examines financial statements that published by the company and economic fundamentals to determine value of securities and its growth prospect. McMillan, *et al.* (2011) define that technical analysis is study of market trends or patterns that comes from price and volume data which is often graphically displayed. It doesn't required detail knowledge of the financial instrument. Investors have to get enough information to do the two analyses.

Individual investor will rationally use all of the available relevant information to buy stocks that they might to buy. This makes adequate and reliable financial information important in financial decision. According to Rose, Peter S. and Marquis, Milton H. (2008) there are four groups of information sources that relied by the investors, which are debt security prices and yields, stock prices and dividend yields, information on security issuers, and general economic and financial conditions across the entire economy and financial systems.

Nowadays, the advance information technology is growing rapidly, especially for the internet development. People can easily get information and data from the internet about what they search, and update their current information to understand what happen around them. This is also give impact for investor behavior.

In this modern era, Rose, Peter S. and Marquis, Milton H. (2008) explain that the information revolution providing financial services to the public involves the analysis, storage, and transfer of financial information. Digitized communication through the internet make investors equipped with powerful new tools such as advance gadgets or smart phones to easily getting information resources, monitoring their investment in 24 hours and helps them in decision making.

Investors engage with advance gadget when they access information. They can easily get information about stocks that they want to buy, company performance, annual report and everything that publish in the internet to do analysis before they decide to make investment. According to Liaw (2004)

millions of customers conduct their banking, stock, bond, and trading using online systems. By presenting bills, and delivering account statements, research report and other materials online, companies cut operating cost and improve efficiency.

According to Da *et al.* (2011) abnormal return, abnormal turnover, media reports, and advertising expenditure are the indirect proxies of investors' attention. Information about list firm that reported in the media cannot give guarantee that the investor receives attention, except the investor read it. Investors' attention can be seen from the search activity that did by the investor. When the investors try to find information or search all the information about that stock, it means the investor give attention to that stock.

This study is using Google search volume index as a direct proxy of investors' attention. It can be access in Google Trends. Google Trends is a tool that provides the volume of queries on many kinds of industries that will helpful to predict the subsequent data release (Choi Hyunyoung and Varian Hall, 2009).

The previous researcher, Bank *et al.* (2011) said that there is relation between the increasing of internet search volume with the trading activity, stock liquidity and return. When the internet search volume increase, the stock liquidity and the stock return will also increase for the short run. Stock will be more liquid when the demand and the supply is high or having high trading activity.

According to Da *et al.* (2009) The reason that this study using Google search volume as a direct proxy of investors' attention is the popularity of Google among the internet users as the search engine sources to collect information and also the capability of Google search volume index to capture public attention

which is not captured by news. Google search volume captures the attention of individual investor or retail investor who has limited sources of information. Usually, the institutional investor has more detail source of information.

Cited from Antaranews, APJII (Asosiasi Penyelenggara Jasa Internet Indonesia) stated that Internet users in Indonesia keep increasing (<http://www.antaranews.com>). In the year 2013 it reached 71,19 million users or increase until 13% compared to the year 2012 that reached 63 million users. According to web sources of techcircle.in, internet users in India reach about 150 million people, and India has become the 3rd largest internet population in the world after China (<http://techcircle.vccircle.com>).

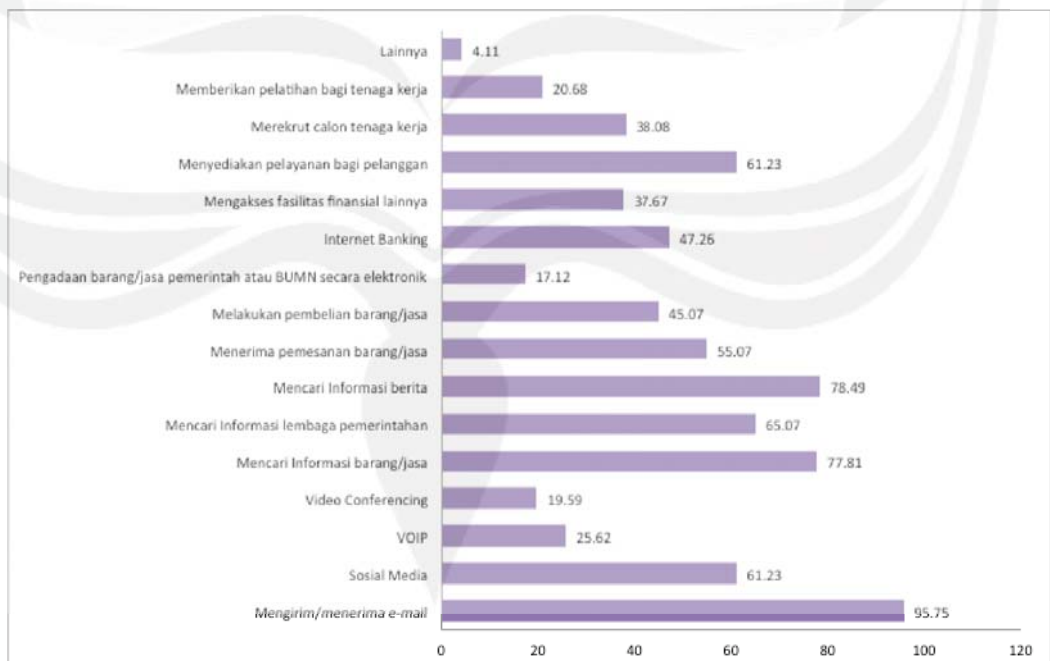
The reasons that researcher interesting to study on these two countries, Indonesia and India because both of them have some similarities. Indonesia and India are emerging markets that became members of G20 (<http://internasional.kompas.com>) and the growth of internet users in these two countries are similar (<https://www.google.com/publicdata>). Below is the graph of Indonesia and India internet users.

Figure 1
Development of Internet users in Indonesia and India
in the year 1990-2012



Sources :<https://www.google.com/publicdata>

Figure 2
Pattern of internet users in Indonesia:



Sources: HarianTI (<http://harianti.com>)

From data above that cited from HarianTI, it can be seen that 78,49% internet users in Indonesia use the internet to find news and information, 77.81% use to find information about goods and services and 37,67% use to access the others financial facility (<http://harianti.com>).

It is interesting to examine the usage of internet in term of investment in those countries, the correlation between the internet usage through Google search engine to find information of stock, company profile, annual report and any subject that support investors to get more knowledge to do investment.

1.2 Problem Statements

This study will examine the influenced of investor attention to the stock return, liquidity and the return volatility for the individual investor in Indonesia and India focusing on manufacture sector. There are several questions that are used as guidance to developing this study. Below is the list of research problems for this study:

1. Does investors' attention of company stock information influence the stock return of manufacture companies in Indonesia and India?
2. Does investors' attention of company stock information influence the stock liquidity of manufacture companies in Indonesia and India?
3. Does investors' attention of company stock information influence the return volatility of manufacture companies in Indonesia and India?

4. Does any differences between investors' attention of company stock information in Indonesia and India in term of return, liquidity, and return volatility?

1.3 Research Scope

This study will concern to examine the influence of investors' attention of company stock information on stock return, liquidity, and return volatility comparison between Indonesia and India focusing on manufacture sector. The data observation will only focus on firms that listed on manufacture sector in Indonesia Stock Exchange (IDX) and firms that listed on Manufacture sector in India Stock Exchange (NSE-National Stock Exchange of India) that already filter using purposive sampling method. Search volume index from Google trends will use as a direct proxy to capture the attention of individual investor or retail investor not the institutional investor. This study only uses the data from the period 2011-2013, because most of the data on the previous years of search volume in Google trends is not available.

1.4 Research Objectives

The main purpose of this research is to examine whether there is an influence of individual investor attentions' of company stock information to stock return, liquidity, and return volatility or not. This paper will examine two countries which is Indonesia and India. But there are some others objectives that hopefully can be reach or answer after conducting the research, such as:

1. To examine the influence of investors' attention of company stock information on stock return of manufacture companies in Indonesia and India
2. To examine the influence of investors' attention of company stock information on stock liquidity of manufacture companies in Indonesia and India
3. To identify whether the investors' attention of company stock information influence the return volatility of manufacture companies in Indonesia and India
4. To identify any differences between investors' attention of company stock information in Indonesia and India in term of return, liquidity, and return volatility?

1.5 Research Benefits

This research will give positive advantages and provide contribution to:

a. For the Researcher

This research is expected to help the researcher understanding about investors' attention on investment and can be the additional references to conduct the similar research for other researchers.

b. For the investors

This research is expected to give better understanding about the most popular stock that sought by the investors especially the information retrieval using internet.

c. For academic

This research hopefully can give better understanding for the readers the effect of attention on investment.

1.6 Research Outline

This thesis is divided into five chapters, which are:

CHAPTER I : INTRODUCTION

This chapter consists of background of the research, problem statement of the research, scope of the research, objectives of the research, and contribution of the research.

CHAPTER II : THEORETICAL BACKGROUND AND PREVIOUS RESEARCH

This chapter consists of theoretical background, previous researches, and hypothesis development.

CHAPTER III : RESEARCH METHODOLOGY

This chapter consists of population and sample, data gathering, and measurement of variables, and data analysis technique.

CHAPTER IV : DATA ANALYSIS

This chapter consists of data analysis of the research that has been calculated and observed.

CHAPTER V : CONCLUSION

This chapter consists of conclusion, limitation, implication of the research and suggestion for further research.