



Research Paper

## The Impact of Individual Investor's Trading on Firm Value of Listed Companies in Market Capital<sup>1</sup>

Mohammadmahdi Bahrololoum<sup>2</sup>, Moslem Peymani<sup>3</sup>, Mohammadmahdi Rezaveisi<sup>4</sup>

Received: 2021/03/07

Accepted: 2022/10/15

### Introduction

Financial markets are affected by several factors, and investors are one of them. Most of the studies that have been conducted so far have investigated the role of Individual investors from the behavioral aspect. Some studies have proven that Individual investors do not always trade rationally in financial markets. But on the other hand, some studies point to the collective rationality of Individual investors in the market and the awareness (informational content) of Individual people's transactions. The issue investigated in the current research is the role of Individual investors in the Iranian capital market. The answer to this question would be whether such investors are disruptive to the market and ultimately affect the value of companies in the capital market with their transactions, or whether the information content of stocks is affected by their transactions which will raise and cause an increase in liquidity, and ultimately lowers the expected return of shareholders and increases the value of the company's shares.

### MATERIALS AND METHODS

In terms of the results, this paper is categorized as an applied study. The statistical population of this research is all the companies admitted to the Tehran Stock Exchange. The time domain is from the beginning of 2013 to the end of 2018. Data and information are divided into two categories: the first category is information related to thematic literature and research conducted in this field, and the second category is information related to hypotheses testing and research variables. We used library studies to check the background of the research. In addition, information related to hypothesis testing

1. DOI: 10.22051/JFM.2022.35363.2518

2. Assistant Professor, Department of Financial Management, Faculty of Management and Accounting, Allameh Tabatabai University, Tehran, Iran. Corresponding Author. Email: m.bahrololoum@atu.ac.ir.

3. Assistant Professor, Department of Financial Management, Faculty of Management and Accounting, Allameh Tabatabai University, Tehran, Iran. Email: m.peymani@atu.ac.ir.

4. M.Sc. Department of Financial Management, Faculty of Management and Accounting, Allameh Tabatabai University, Tehran, Iran. Email: m.rezavaisi@atu.ac.ir.

has been collected through the database in the information technology management of the Stock Exchange Organization and the library of the Stock Exchange Organization. This research seeks to find the effect of investment on the value of the company. Therefore, the two-stage least squares regression method is used.

## RESULTS AND DISCUSSION

The results of the main hypothesis test show that companies whose shares are traded more by Individual investors have a higher value, and the main hypothesis of the research is confirmed, and this finding is consistent with Wang's research. In 2015, Wang investigated the effect of transactions of Individual investors on the value of the company in the New York Stock Exchange, and the result shows a positive and significant effect of the transactions of Individual investors on the value of the company.

The sub-hypothesis of the research was that "the direct effect of Individual investors' transactions on company value is stronger in good companies than in bad companies". The results also confirm this hypothesis. In this way, the effect of Individual investors' transactions on the value of good companies is stronger than that of bad companies. This finding is consistent with the study of Da (2011).

## CONCLUSION

If companies realize that Individual investors' transactions with the private information of their companies will lead to the improvement of their value, they may compete with each other in publishing more information. As a result, the information efficiency of the stock market can increase. Therefore, capital market policymakers should seek to remove obstacles and facilitate the presence of Individual investors in the capital market in drafting regulations regarding Individual traders. Investors in the capital market are advised to include the volume of Individual investors' transactions as an important factor in their investment evaluations.

Also, companies admitted that the capital market can increase their free-floating shares so that Individual investors can trade more shares of these companies and, as a result, the value of these companies will improve in this way.

In addition, for the fundamental analysis of listed companies, analysts can consider the volume of transactions of Individual investors as an effective variable in the analysis, along with other variables. On the one hand, this information can be used as fundamental information such as; Profit or sales information, etc., for the current period should be available to everyone. On the other hand, he used them to compare them with the past periods and examined important changes in the value of companies using this variable.

**Keywords:** Individual Investor, Firm Value, Spread, Trading Volume.

**JEL Classification:** G14 . G32.

## COPYRIGHTS



©2022 Alzahra University, Tehran, Iran. This license allows others to download the works and share them with others as long as they credit them, but they can't change them in any way or use them commercially.

