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Informed and Uninformed Investors in Iran: Evidence from the Tehran Stock Exchange

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Research Highlights of the Paper

- Investors' behavior in Iran.
- Informed vs. uninformed investors.
- Investors' behavior in emerging markets.
- Financial literacy in Iran.

Abstract

The financial markets of the Islamic Republic of Iran, mainly represented by the Tehran Stock Exchange (TSE), remain one of the least studied of major emerging stock markets. We have collected a large data set on investment behavior of informed and uninformed investors at the Tehran Stock Exchange (TSE). Using exploratory factor analysis and structural equation modeling of latent variables, we find that investors in Iran are not homogenous, exhibiting different behavior across demographic, psychological, and economic variables. Informed investors' behavior is consistent with the general recommendations of the economic theory. They view investment knowledge and economic-related variables more importantly than uninformed investors who are more influenced by behavioral variables such as sentiment and personality. Such behavioral differences have also been observed in other studies analyzing the relationship between investment performance variation and investors' type in emerging stock markets. From a public policy perspective and given Iran's emerging economic opportunity, our findings emphasize the need for more effective regulation of investment products, sales, and advisory services, coupled with some basic financial literacy education both at pre-and-post-secondary levels in Iran. Such steps will improve the quality of individual investors' decisions, increase investor confidence and participation in capital markets, provide companies with better access to cheaper source of risk capital, and, ultimately, advance the overall economy in Iran.

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