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Stock Market Investment Strategy for Fundamental Investors and Daily Traders: Who Gains More Profit?

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Abstract/Highlights: Investment strategies and decisions are crucial in determining the direction of the stock market, which in turn affects the overall economy. It is crucial to comprehend and investigate the behavioral elements that affect individual investors decisions on the Indonesian and Malaysian stock exchanges, as well as the ways in which these elements affect the performance of their investments. This paper is a conceptual study that aims to examine the stock market investment strategy from the perspective of traders and investors using fundamental and technical analyses. The study will utilize primary data collected from traders and investors as respondents who have a Central Depository System (CDS) or stock account in Malaysia and Indonesia. Semi-structured interviews with several traders or investors will also be conducted to gain a deeper understanding of this behavior. This study is one of the very few that uses behavioral finance to examine the factors influencing stock investment decisions in Malaysia and Indonesia. The study will also provide a comparison analysis between two countries of stock market investment strategies.

Keywords: Stock market, Investment strategy, fundamental and technical analysis, traders

Introduction

A share is a portion of equity that is owned by a firm. Any earnings the business makes are payable to the shareholders as dividends. To acquire ownership of a company, i.e., one needs to open an account to buy shares in the stock market. Then, traders or investors can start by applying a trading or fundamental strategy for their investment. Stock trading or investment is a buying and selling activity carried out by institutions as well as investors or retail traders who have investment securities accounts in the stock market. They aim to profit from the price differential between buying and selling stocks (capital gain), in which traders and investors will gain from both daily and long-term investment. The profit can be from the price difference between buying and selling shares that have been purchased from an issuer of company shares or from the firm's profit distribution (dividends).

The company goes public and is listed on the stock exchange to raise resources or capital funds by selling ownership of the company to the public in the capital market. The company can optimize these funding sources to boost performance because the obtained funds serve as a

source of long-term financing. Ultimately, to achieve excellent performance the business must preserve and grow investor confidence.

Individuals try to increase their returns by trading equities. As a result, stock price speculation is seen as an important attribute for market participants. However, stock prices are difficult to predict because they are influenced by various factors, including investor behavior. As noted by Hong et al. (2023)**,** different types of manipulators lead to different reaction patterns by sending different credible signals. Investor behavior in some financial markets can lead to significant fluctuations. Investors frequently buy past winners and sell past losers, which leads to an endless cycle of rising and falling stock values (Lakonishok et al., 1992). They are often interested in stocks that go up or down in value (Ni et al., 2020)**.**

The Efficient Market Hypothesis (EMH) holds that the stock market fully reflects all available information (Fama, 1965 ;1970). Thus, it may be difficult for investors to predict future stock prices in order to generate excess returns (Latif et al., 2011). In fact, research has shown that using technical indicators for stock trading, such as stochastic oscillator indicators (SOI) and relative strength indexes (RSI), can help investors generate higher profits (Chiang et. al. 2012; Chong and Ng, 2008; Shik and Chong, 2007; Wang et. al. 2012). In addition, traders are also using other techniques in stock trading, such as overbought or oversold signals and plan to use contrarian or momentum strategies, either by following the trend or overreacting to a stock's price change.

In the context of the global economy, the Southeast Asian market has grown rapidly in recent decades. Due to significant economic development, stock market participants have paid considerable close attention to Indonesia and Malaysia. Furthermore, studies demonstrate that market players can use a rule trading approach as a tool to forecast future stock prices. (Wang et al., 2015), we believe that profits can also be obtained using fundamental methods. Therefore, the driving force behind this study is to examine which investment strategy can generate more profit. The following are the research objectives:

i. To examine the fundamental analysis strategy on trading performance.
ii. To examine the technical analysis strategy on trading performance.
iii. To examine whether fundamental or technical analysis helps investors or traders gain more profit.

This research raises several theories, including EMH (Efficient Market Hypothesis), overreaction hypothesis, and herding behavior, to explore the market and investor or trader behavior related to technical analysis and strategy.

Literature review

Theory and Practice of Daily Trading Based on Technical Analysis

The stock market has long been a subject of interest for both fundamental investors and daily traders. Fundamental investors concentrate on evaluating a company's financial health and growth potential, whereas daily traders rely on technical analysis of market trends and patterns of strategy. In the past, stock market efficiency has been extensively discussed in the financial literature (Fama 1970; Phan and Zhou 2014). It is challenging to produce anomalous profits based on the estimation of historical data in an efficient market, which should incorporate all information immediately (Baciu 2014). The EMH (Efficient Market Hypothesis) provides a theoretical framework that accompanies the general belief in the need for accurate information (Hu 2012)**.**

According to Al Janabi et al. (2010), even though there is extensively explored the EMH in the financial field, research has shown that numerous stock exchanges worldwide may not adhere to this principle. As stated by Latif et al. (2011), some stock market investors do not think that the market is efficient. In fact, certain market participants may provide outperformance relative to the market, specifically high-frequency traders and hedge funds (Masteika and Rutkauskas 2012). According to Phan and Zhou (2014), traders and investors are urged to filter stocks to maximize returns.

However, it has been discovered that technical analysis strongly contradicts the well-known EMH theory (Bessembinder and Chan 1995). In fact, the rationale behind the application of technical trading rules can be explained by herding behavior due to rising investor sentiment (Friesen et al. 2009; Menkhoff et al. 2012) or also due to the stock price overreaction resulting in stock prices falling, then rebounding (Neely et al. 2014; Money 2000). In other words, applying technical analysis will have to do with academic concepts, including overreaction, market efficiency, and inefficiency, as well as trading behavioral herding.

The practice of daily trading based on technical analysis has gained significant attention in the financial markets, as traders and investors seek to capitalize on short-term market movements to generate consistent returns. This approach lies in the theory and application of technical analysis, a discipline that has been the subject of extensive research and debate (Cremonie et al., 2016). Technical analysis tool to examine and forecast the behavior of financial instruments by analyzing past market data, such as prices and trading volumes. Technical analysis involves market indicators that aim to recognize trends and patterns, such as levels of support and resistance, that can assist traders in making trading decisions s. Recent research has explored the potential of deep learning models to enhance the accuracy and robustness of technical analysis-based stock price prediction (Sen & Mehtab, 2021).

The application of technical analysis in daily trading has been the subject of extensive research, with studies examining the efficacy of various indicators and strategies (Sen & Mehtab, 2021; Cremonie et al., 2016). These studies have highlighted the potential for technical analysis to provide valuable insights into market behavior, particularly in the context of short-term trading (Sen & Mehtab, 2021). Numerous studies have explored the applications and efficacy of technical analysis in the context of financial markets. One study highlights the importance of technical analysis in forecasting the behavior of financial instruments, particularly at shorter time horizons. The researchers found that technical analysis is the most crucial form of analysis in a short-term decision trading strategy, particularly in forecasting the horizon of days or weeks. In addition, traders tend to exhibit a strong belief in the influence of psychological factors on price movements, leading to the adoption of trend-following strategies (Menkhoff, 2010; Sen & Mehtab, 2021). On the other hand, according to Qin et al. (2013), technical analysis focuses solely on the statistical patterns generated by market movements without considering the underlying value of a company.

Interestingly, research has also explored the effectiveness of technical trading methods in the context of Shariah-compliant stocks, which are subject to additional ethical and religious constraints (Ling et al., 2020). This line of inquiry highlights the potential for technical analysis to be applied across diverse investment landscapes, providing valuable insights for both conventional and Shariah-compliant investors (Ling et al., 2020).

In addition, technical analysis has long been a crucial tool in understanding the complexities of financial markets. By examining historical price patterns and trends, investors can gain valuable insights into the underlying factors that drive market behavior, potentially identifying opportunities for profitable trades or mitigating risks associated with unexpected events

(Barbera, 2012). Following the connections between behavioral economics and investor behavior, recent studies have emphasized the significance of technical analysis in the larger framework of financial markets (Cremonie et al., 2016). Technical analysts apply trend-following behavior, as they believe that prices are heavily influenced by psychological factors and market sentiment (Menkhoff, 2010). As noted by Oberlechner (2001), the shorter the forecasting horizon, the more important it is for traders using chartist or technical analysis in their trading strategy.

The use of technical analysis is not limited to individual investors; it is also widely adopted by fund managers globally. Researchers have found that technical analysis is an important form of strategy when forecasting the horizon of weeks compared to fundamental analysis (Menkhoff, 2010). Nevertheless, according to Menkhoff (2010), smaller asset management firms tend to favour in technical analysis approach, as larger firms may place greater emphasis on other analytical approaches. Based on Yu et. al. (2013), in comparison to more developed stock markets like Singapore, emerging stock markets such as Malaysia, Thailand, Indonesia, and the Philippines exhibit stronger predictive power according to trading rules. In addition, the study found that the short-term variants of the technical trading rules have better predictive ability than the long-term variants. Thus, it is assumed that investment trading styles vary across different trading regions.

According to the annual report by Securities Commission Malaysia (2023), In 2024 amidst increased economic uncertainties global economic growth is predicted to remain modest. In addition, it is also anticipated that ASEAN stock markets will exhibit a favorable trajectory, influenced by the relaxation of global monetary policies and steady economic growth within the region. Recent projections indicate that the ASEAN-5 economies are expected to expand by 4.5%, an increase from 4.2% in 2023, which is likely to boost investor confidence and stimulate market activity (IMF, 2023). Therefore, positive economic indicators may be reflected in a variety of technical signals according to technical analysis theory. Growing stock prices and positive moving averages for example could indicate bullish trends brought on by heightened investor confidence. If the projected economic growth translates into better market performance technical indicators such as the Moving Average Convergence Divergence (MACD) and Relative Strength Index (RSI) may also exhibit upward momentum. Further bolstering bullish trends in the ASEAN stock markets volume analysis may also show increased trading activity as investors react to positive economic conditions.

Existing literature also suggests that advanced or sophisticated technology in technical analysis can be used to determine the optimal timing to enter and exit markets, using a variety of indicators generated by analyzing the movement of stock prices and trading volumes (Ling et al., 2020). Almeida and Vieira (2023), examine bibliometric evaluation that focusing on technical, fundamental and Ichimoku analysis. Lin dan Marques (2024) includes the technical analysis for predicting the trends or prices of the stock market.

As financial markets continue to evolve, the application of technical analysis remains a critical component in providing valuable insights into market behavior, the potential for unexpected events, and the psychological factors that influence investor behavior.

Therefore, the theory and practice of daily trading based on technical analysis remain a subject of ongoing research and debate. While the potential of technical analysis to provide valuable insights into market behavior is well-documented, the challenges associated with consistently predicting market movements highlight the importance of a balanced and holistic approach to investment decision making.

Fundamental Strategy Theory and Practice

Fundamental investors play a prominent role in stock equity market investment by analyzing the individual companies and acquiring immense knowledge to find the potential for growth and then investing in the company with confidence. The most common stock market decisions made by investors include fundamental analysis. The fundamental analysis uses publicly available information from the stock market, including financial statements of business, which include assets, liabilities, and turnover, to assess the fiscal health of the company in the market. Investors should also look at the financial ratios during company analysis, which are generally available in the balance sheets and income statements of the companies. Fundamental analysis is also one of the investor's strategies and techniques to investigate the performance of the company within its industry and project its future earnings and firm stock price. Recent research has sought to explore the impact of news sentiment on stock price movements, as a way of incorporating fundamental analysis into trading strategies. Fundamentalist analysis, which examines the underlying health and growth potential of a company, has long been considered a crucial component of investment decision making. However, the efficacy of this approach has been questioned by the efficient-market hypothesis, which posits that stock prices are essentially unpredictable (Joshi et al., 2016).

Jagongo and Mutswenje (2014) conducted a survey and discovered that the reputation of the company, its standing in the industry, the expected corporate earnings price per share, and the expected profit distribution (dividend) were the most significant factors influencing individual investment decisions. According to Oberlechner (2001), financial journalists will emphasize more fundamental analysis than do foreign exchange traders. Thus, it is also assumed that the forecasting styles for investment trading strategies vary across different trading locations. Thus, it uses accounting information about the companies to estimate the future evolution of the company itself. In studies carried out by Jakpar et al. (2018), fundamental analysis serves to reveal positive gains better than technical analysis in the food manufacturing industry. The fundamental analysis uses a company's financial statements, industry trends, and macroeconomic factors that aim to determine the intrinsic value of a stock and ultimately identify undervalued or overvalued assets (Qin et al., 2013; Huan & Hang, 2017).

Fundamentalist investors delve into the health and growth potential of a company, scrutinizing factors such as the income statement, balance sheet, cash flow statement, dividend records, news releases, and corporate policies (Qin et al., 2013). Therefore, it is believed that this comprehensive approach, provides a holistic understanding of a company's financial standing and prospects, enabling investors to make more informed decisions. According to Rajablu (2011), Warren Buffet investment style on the fundamental strategy is using the WACC, CAPM, and EMH theories of finance for his value investing decisions. The price of the stock market fluctuates daily, and it is difficult to make investment decisions. Buffett prefers to gather all kinds of different information and evaluate it against various alternatives, and he does not adhere to the financial theory of EMH (Efficient Market Hypothesis). He believes that investing in stocks is the same as investing in business; therefore he prefers a rational long-term investment approach. Therefore, this research will consider looking at fundamental analysis for investment decisions.

Research Methodology

This study begins with existing theories in behavioral finance, where hypotheses are proposed. This hypothesis was then evaluated by distributing questionnaires to individual traders and investors on the Indonesian and Malaysian stock exchanges. This study uses SmartPLS 4.0 for

the data analysis. Semi-structured interviews with several investors were conducted to gain a deeper understanding of this behavior. The sample size is approximately between 100 and 150 respondents. The most important and relevant elements will be determined according to this questionnaire.

Data collection

This research will focus on individual investors who participate in stock trading for their accounts as the primary unit of analysis. In Malaysia, the trading accounts or Central Depository System (CDS) accounts of retail investors are characterized by a high degree of privacy and confidentiality. Consequently, the research relies on survey data from individuals who own trading accounts, encompassing both Malaysian and Indonesian traders and investors. To fulfil the research objectives, an online sampling technique will be employed, and data will be gathered directly from primary sources using questionnaires. The survey will be administered through various online platforms, including Telegram and WhatsApp groups, facilitated by authorized contacts such as remisiers and stockbroking companies.

The choice of an online survey method was deemed suitable for data collection due to respondents' readiness to answer survey questions. Additionally, online sampling is justified as it provides a cost-effective means to access a wide and diverse population within a constrained time frame. Moreover, to achieve a substantial sample size, respondents were encouraged to share the questionnaire link with other investors in their network within the stock market. This collaborative process persisted until a satisfactory sample size was attained.

Referring to Figure 1, the overall number of new individual Central Depository System (CDS) accounts or retail trades in Malaysia reached 223,249 in 2021 and 99,610 in 2022. Additionally, a total of 147,091 new individual CDS accounts were inaugurated in the first half of 2023 (The Edge Malaysia, 2023). In the Indonesian capital market for the year 2021, the total number of investors surged by 37.5 percent, escalating from 7.48 million to 10.3 million investors. This rise is primarily attributed to the significant involvement of retail investors in daily trading activities on the Indonesia Stock Exchange (IDX), which constitutes 44.9 percent of the market share (KSEI, 2022).

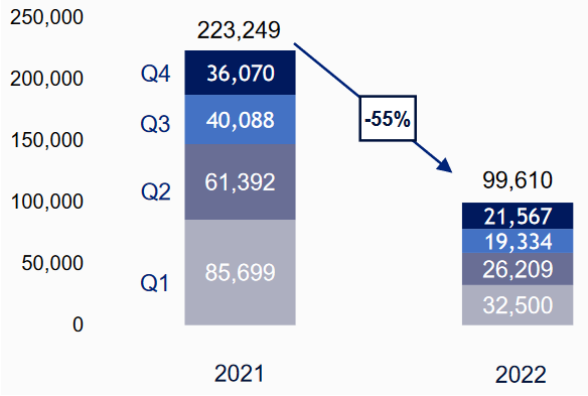

Figure 1. New Individual CDS Accounts (Retail trades accounts) in Malaysia
Source: Bursa Malaysia (2023)

Derived from the retail investors' population and utilizing a margin error of 3 with a 95 percent confidence interval, the projected sample size is determined to be 1,054, as the sample required by Kerjcie and Morgan (Khan, Tan, and Chong, 2017). This survey will be randomly distributed to 1,054 retail investors, including both Malaysian and Indonesian retail investors.

This study also includes elements of investor trading and investment activities that are in line with the established and parameterized Shariah principles. Investors who trade and invest in Shariah-compliant securities on Bursa Malaysia and Bursa Saham Indonesia (IDX) are encouraged to conduct their activities through registered Islamic brokers who conduct their stockbroking business in accordance with Shariah principles.

Conclusion

This paper is a conceptual study designed to explore stock market investment strategies from the viewpoints of both traders and investors, utilizing insights from both fundamental and technical analyses. Individuals are trying to get higher returns by trading stocks. Thus, stock price speculation is considered a characteristic important for market participants. However, stock prices are difficult to predict due to influenced by many factors involved with investor behavior, such as herd mentality, overconfidence, loss version, or anchoring. In the context of the global economy, Indonesia and Malaysia received attention from stock market players for their significant economic growth. This research focus is concerned with opening the horizons of investors to find their best strategy to generate profits by investing in the stock market and increasing economic growth towards strengthening the economic condition. Beside the individual investors who may benefit directly from the findings of this study, the securities firms can also utilize this study as a reference for their analysis and forecasting of the stock trends for both countries (i.e., Malaysia and Indonesia).

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