

# Research on the Influence of Securities Investment Fund on the Efficiency of Chinese Securities Market and Policy Suggestions

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## ABSTRACT

With the rapid expansion of the scale of China's securities market, investment funds, as an important part of the securities market, also develop rapidly. The scale of investment fund market is expanding day by day, the variety and structure of investment fund are becoming richer day by day, and its influence on the securities market is also emerging day by day. As an investor in the securities market, the operation of investment funds may not only contribute to the healthy development of the securities market, but also have a certain negative impact on the securities market. At the same time, institutional investors are also playing an increasingly important role in China's capital market, so it is of great significance to study the impact of institutional investors' trading behavior on the efficiency of capital market. This paper is to study the influence of the operation of China's investment fund industry on the efficiency of the securities market, and the results show that although some trading behaviors of funds will reduce the efficiency of the stock market, the overall trading of funds plays a positive role in improving the price discovery ability of the market to a certain extent. This paper is of certain significance to promote the improvement of the efficiency of China's securities market and promote the healthy development of China's fund industry and securities market.

**Keywords:** Efficiency of securities market, Securities investment funds, Policy suggestion.

## 1. INTRODUCTION

### 1.1 Research Background and Significance

In the capital market, the securities market is a very important carrier. It not only has a pivotal impact on the resource allocation of the economy, but also occupies a key position in the modern market economy and financial market. It is the most important one, the degree of internationalization. The efficiency of the securities market determines the operating efficiency of the entire market economy. Related research shows that the efficiency of the securities market in developed countries and new industrial countries has begun to transition from weak efficiency to semi-strong efficiency. Whether China's securities market has reached a weak effective market is still a relatively big controversy. On the whole, the efficiency of

China's securities market is still at a relatively low level. The specific manifestations are:

### 1.2 The Stock Issuance Process Is Chaotic

At present, China's stock issuance system still adopts an approval system. Although there has always been a high demand for the reform of the approval system to the registration system, this transformation will take a certain period of time to complete, and various supporting systems need to be reformed accordingly [1]. In the implementation of the current approval system, the lack of responsibility is a very obvious problem.

### 1.3 Incomplete Information Disclosure

On the one hand, information disclosure is insufficient, and on the other hand, information disclosure is asymmetry. Compared with western developed countries, China's securities market still

has great deficiencies in the adequacy of information disclosure, the symmetry of distribution, and the effectiveness [2].

#### **1.4 There Is a Lot of Stock Price Manipulation in the Market**

Stock price manipulation not only plunges the market into disorder and turmoil, but also directly damages the direct interests of a large number of small and medium investors, and even causes the financial market's resource allocation function to fail to be effectively and fully utilized [3]. Although stock price manipulation is enough to seriously damage the confidence of stock market investors and have greater harm, in fact it has been repeatedly banned but never disappeared.

#### **1.5 The Delisting Process Is Not Perfect and Rigorous**

At present, China's stock market has been flooded with a large number of junk stocks containing ST shares, and it is even called the "junk market." However, due to the imperfect delisting process in China, these junk stocks are often not delisted, and thus become the target of some speculators.

#### **1.6 Existing Laws and Regulations Have Weaknesses and Omissions**

There are weaknesses and omissions in the existing laws and regulation, which resulting in low costs for listed companies to counterfeit and violate the law. Although our country's legislation on the regulation of the stock market has been constantly improving, various violations of the laws and regulations of listed companies have been classified in more detail and penalties have been formulated. But in fact, all kinds of fraudulent disclosures, financial statement whitewashing, insider trading and other types of illegal operations by listed companies in China are still emerging in an endless stream.

#### **1.7 Individual Investors Have a High Proportion and Lack Risk Awareness**

The high turnover rate of China's stock market shows that most participants are short-term speculation, and they value short-term profit too much and often ignore the long-term value of stocks. At present, the majority of small and medium investors in China have insufficient

understanding of the relationship between returns and risks when investing in stocks, and their investment skills are also relatively lacking.

Among them, securities investment funds are important parts of the securities market, and increasingly become a decisive factor affecting the efficiency of the securities market.

According to behavioural finance theory, securities investment fund is not completely rational, due to a variety of reasons, in the actual investment operation, it is often difficult to complete the value investment, and the investment behaviour of securities investment fund also tends to overreaction, underreaction and herd behaviour. Combined with domestic and foreign research results in this area, it can be seen that most of the research is carried out from the perspective that the shareholding ratio of securities investment funds causes market fluctuations, and discusses the role of securities investment funds in stabilizing the stock market. However, the research results of relevant scholars are not consistent in the conclusion. Some scholars believe that securities investment funds aggravate the volatility of the stock market, which is not conducive to the improvement of the efficiency of the stock market. Some scholars believe that securities investment funds reduce the volatility of the stock market, which is conducive to improving the efficiency of the stock market [4]. Throughout the history of securities market, securities fund have gradually expanded its market share, which has become a development direction. China's securities investment funds in recent years have made rapid development and expansion, gradually occupied the market, and become the backbone of the market. It is necessary to study the influence of securities investment fund on the efficiency of securities market, and to take reasonable guiding measures to promote the healthy development of securities market.

## **2. THEORETICAL BACKGROUND AND ANALYSIS**

### **2.1 Traditional Capital Market Efficiency Theory**

Before the 1990s, there was very little research on institutional investors, mainly because the power of institutional investors was still very weak, coupled with the long-term dominance of the financial industry by efficient market theory, academia had inertially ignored new entities.

However, with the increasing role of institutional investors in each subject of the market, the academic circles have also increased their research on this subject. However, in the past, most researches still tend to approach and conduct research from the perspective of biased behavioural finance [5]. In fact, these studies are carried out on the opposite side of the rational expectations school, hoping to find evidence to overthrow the theory of market efficiency.

The traditional capital market efficiency theory is mainly based on the combination of the effective market theory of the theoretical expectation school and the efficiency theory of the neoclassical economics school. The core point of the efficiency theory of the neoclassical school of economics is that efficiency is the optimal allocation of resources, and its core mechanism lies in the price mechanism. In the financial market, price is actually the only link connecting various financial entities. Obviously, the price of securities is the core of the capital market. Therefore, the fusion of the two is very natural.

The efficient market hypothesis believes that the efficiency of the capital market is mainly measured by whether the asset price in the capital market fully reflects all the news related to the asset in a timely manner. In other words, the degree of response of securities to new information reflects the operating efficiency of the capital market. Although this view was later questioned by some scholars, its contribution is that it provides a standard for measuring the efficiency of complex capital markets, and this standard is at least logically fluent [6]. After efficient market theory established the orthodox position in the financial market, there emerged a lot of research on efficient market theory.

## **2.2 The Impact of Investment Funds on the Efficiency of the Securities Market**

The impact of investment funds on the securities market is mainly reflected in two aspects: market quality and efficiency, including volatility, liquidity and transparency. Volatility usually refers to the degree of security price fluctuation, which determines the degree of risk traders hold securities. If the market volatility is high, the price will likely appear a greater degree of change, and traders will also face greater risk. Liquidity generally refers to the ability to complete a certain number of orders at a low transaction cost and at the same time have little impact on market prices.

In terms of the attributes of market liquidity, it is generally believed that liquidity includes four factors, namely width, depth, immediacy, market influence and elasticity. Width, depth and immediacy measure liquidity from a static perspective, while market influence and elasticity measure liquidity from a dynamic perspective. Transparency refers to the extent to which the average market participant has access through legitimate public channels to all kinds of information needed to make decisions. In modern market economy, the information required by market participants for decision-making includes commodity supply and demand, transaction price, market supervision, and various fiscal, economic and financial indicators and policies. Market transparency refers to the extent to which such information is complete, comprehensive, true and reliable. At the same time, the herd effect of investment funds has a significant impact on the efficiency of the securities market.

### *2.2.1 The Impact of Funds on the Volatility of the Securities Market*

Securities investment funds mainly invest in the stock market and have an important impact on stock price fluctuations. Although the stock market price fluctuation is affected by many factors, such as a large amount of capital flow or operation transaction may have a certain impact on the stock market, but the herd effect of securities investment funds will have an impact on the stock market and the price changes of related stocks. The so-called herd behaviour in financial activities refers to the behaviour of investors who, under the uncertain information environment, are influenced by other investors, imitate others' decisions, or excessively rely on public opinion (i.e. the concept of absolute quantity in the market) while ignoring the information they own and master. Herd behaviour in financial activities is a special kind of irrational behaviour. On the one hand, herd behaviour weakens the effect of market fundamentals on future price trends due to certain convergence and causes market fluctuations. On the other hand, if herd behaviour is caused by investors' rapid response to the same basic information, in this case, herd behaviour of investors accelerates the speed of stock price's absorption of information and makes the market more efficient.

### 2.2.2 *The Impact of Funds on the Liquidity of the Securities Market*

The competition of fund products has an important effect on the liquidity of stock market. Stocks are highly liquid if they are held by funds with a large number of funds and investor demand; If it is held by managers with a high risk tolerance, it is less liquid; If it is held by the fund with large scale and large investor risk tolerance, it has high liquidity; If they are held by funds with more information, they show lower liquidity. At the same time, in the process of portfolio investment management, securities investment fund conducts in-depth research and analysis on the invested securities, which will promote the effective use and dissemination of information, greatly reduce the unreasonable pricing of securities, and help improve the efficiency of the market and the effective allocation of resources. Securities investment funds give full play to the advantages of professional financial management, promote the formation of market value judgment system, advocate rational investment culture, and help to prevent excessive speculation in the market [7].

### 2.2.3 *The Impact of Funds on the Transparency of the Securities Market*

Fund as a kind of pooled securities investment, the market has a high requirement for its transparency. It should be said that fund companies should act as the most standardized management, the highest information transparency, the most professional, and the most ambitious professional investment institutions in the securities market. The transparency of funds to the market has two functions. First, the manipulation of funds is very common. Market manipulation of funds refers to the fact that funds use capital and information advantages to influence stock prices, create market illusion and induce investors to make investment decisions without knowing the truth for the purpose of obtaining excess profits or reducing risks. On the one hand, market manipulation increases the risk of investors, and on the other hand, distorts the price signals of the market, leading to market disorder and disorder. Second, funds can effectively solve the adverse selection and moral hazard caused by information asymmetry. The adverse selection and moral hazard caused by information asymmetry in financial market will make financial market fail. Information asymmetry should be a basic reason to explain the existence of financial intermediary [8]. Generally speaking, serious information asymmetry

often exists in the process of securities investment, and fund, as a professional investment intermediary, can effectively solve the adverse selection and moral hazard caused by information asymmetry. Fund managers are usually composed of industrial and financial elites with considerable professional knowledge and experience in specific industries. Their professional skills and experience accumulation enable them to have comparative advantages in selecting, managing and supervising the invested enterprises. They can narrow the information gap by conducting in-depth investigation of enterprises before investment and supervision and control after investment, and reduce supervision costs by taking advantage of their information advantages and scale effect.

## 3. CONCLUSION

A large number of studies have shown that the herd behaviour of securities investment funds is significantly correlated with the volatility of the stock market, and the volatility of the stock market and the herd behaviour of securities investment funds show the same change direction. There are various factors leading to the fluctuation of the stock market, among which the herd behaviour of the securities investment fund is one of the important factors leading to the fluctuation of the stock market. At the same time, institutional trading can reflect new information in the market, increasing the speed at which prices reflect that information. It can be said that although some trading behaviours of funds on stocks (such as momentum trading) will reduce the efficiency of the stock market, the overall trading of funds plays a positive role in improving the price discovery ability of the market to a certain extent and improving the efficiency of the stock market.

First of all, the top priority for China's securities market is to improve laws and regulations and strengthen system construction. At present, China's fund laws are not perfect, the relevant departments should improve the relevant legal provisions as soon as possible, cancel the existing implicit privileges of funds, prevent investment funds from taking advantage of legal or rule loopholes to carry out illegal activities, so as to eliminate the negative impact on the securities market. Besides, adhere to the market-oriented reform direction of fund industry development in China. Fund and the fund manager shall be based on firm growth potential and efficiency as the main principle of investment options, use money as a vote, will the right to use

scarce productive resources to society the need of the development of the industry and the most efficient enterprise, so that the whole society's scarce productive resources allocation efficiency can be greatly improved. The development of fund in China should adhere to the market-oriented direction to prevent the distortion of market-oriented orientation. Furthermore, actively and steadily promote fund product innovation and do a good job in preventing risks of new products. For the innovation of fund varieties, the securities regulatory department should give active support and encourage fund management companies to develop new fund varieties to meet the different needs of all kinds of investors. Regulatory authorities should focus on the possible risks of new fund varieties and their impact on the development of the fund industry, urge fund management companies to establish corresponding risk prevention mechanisms and do a good job in risk prevention.

## AUTHORS' CONTRIBUTIONS

This paper is independently completed by Cunhao Li.

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