

# THE PERCEPTION OF THE LAO SECURITIES EXCHANGE WITHIN THE LAO COMMUNITY

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**Abstract:** *This study focuses on the Lao Securities Exchange (LSX) which was officially opened on October 10, 2010, with two companies listed, EDL-Generation and Banque Pour Le Commerce Extérieur Laos. Specifically, it aims to investigate the perception of the LSX among the Lao community and determine whether an investment culture is developing and capable of supporting the LSX growth through stock investment. This research also seeks to assess the relevance of the government incentives in terms of promoting stock purchasing and determine the perception of the LSX by Lao people. The research used a combination of quantitative and qualitative techniques to probe the willingness of Lao people to be more involved in the LSX. All respondents were Lao citizens, representative of the Lao community at large. A mixed methodology consisting of a questionnaire, semi-structures and unstructured interviews, was utilized. The findings indicate that Laotians do not have an investment culture yet. They are also cautious in their approach to investment and lack financial capital knowledge to feel comfortable investing in stocks. Moreover, it was found that they have little confidence in the LSX ability to discipline itself and navigate through the risk of insider trading. While the government has mostly focused on incentives to boost the number of companies listed, it was found it also needs to better communicate the capital-raising role of LSX in the Lao community and better regulate stock brokers so as to instill more confidence in their services. Still, it is believed that, as the Lao government is expanding funds to boost education and raise the country GDP, knowledge, perception and acceptance of the LSX will keep growing.*

## 1. Introduction

Starting in 1986, Lao PDR (Laos) has engaged in major structural economic reforms which include among others price deregulation and openness to foreign investment. With the introduction that same year of the New Economic Mechanism (an extensive transformation program), the country has been gradually moving from a centrally-planned economy toward a market-oriented system.

Business. This research was completed under the supervision of Dr. Ismail Ali Siad.

One clear evidence of the policy shift that has taken place since is the establishment of the Lao Securities Exchange (hereinafter the 'LSX') on 10 October 2010. The LSX, a joint venture between the Bank of Laos (BOL) and the Korea Exchange (KRX), with the BOL as a majority owner (51%) and the Korea Exchange a minority one (49%), was set up with a view to raise fund for investors and boost economic growth. The LSX is supervised by the Lao Securities Exchange Commission (LSEC). Out of the 10 ASEAN member states, the LSX was the 9th securities exchange to be created (Myanmar has yet to open a securities market). The LSX started trading

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with two stocks; one from EDL Generation Public Company (EDL-Generation), a subsidiary of the state-owned Energy Company Electricity de Laos, and the other from Banque pour le Commerce Extérieur (BECL), the largest commercial bank in Laos.

- EDL-Generation, currently the largest listed company on the LSX operates 7 hydropower dams. Raising capital for business expansion was part of the plan to turn Laos into “the battery of Asia.” EDL-Generation initial public offering (IPO) consisted of 868.6 million shares; a 75% holding by the government with the remaining 25% of the IPO to be purchased by the public, with 10% of them (86.9 million shares) going to foreign investors and the remaining 15% (130.3 million shares) to domestic investors..

- BCEL, established in 1976, was transformed into a full commercial bank in 1989. BCEL's IPO consisted of 27.32 million shares with 20% of them (5.46 million) to be purchased by the public, 75% of which were offered to Lao citizens and 25% to BCEL's staff. Foreign investors were later eligible to purchase shares but prohibited from partaking in the IPO.

At the time the LSX was launched, Laos' healthy economic growth rate was expected to attract investors. However, several factors, which turned out to be more powerful than the attractiveness of a steady growth, impeded the growth of the LSX. They included the small size of the market, young government employees lacking technical skills, stringent regulations, and a lack of specific research by brokerage firms on the behavior of Lao investors. They resulted in low international institutional investor interest and have since been affecting investors' decision to invest in the LSX. They also

made it difficult to have more companies listed on the LSX.

To measure the performance of the LSX, an index was created. Called the LSX Composite Index (Laos Securities Exchange Composite Index) and created with a base value of 1000 as of Jan 11, 2011, it is a capitalization weighted index of the companies listed on the LSX. The initial index was set at 1,000. With the secondary market officially starting trading on January 11, 2011, the market price index kept increasing for 22 uninterrupted days, reaching its peak at 1,865 point. It has since then gradually stabilized around 1,300 points.

The LSX has now been operating for three years with most of the trading conducting by foreign investors (both institutional and individual). In 2012, they represented 58.46% of the traders (29.40% were Lao individual traders and another 9.93% corporate traders). China, Thailand, Japan, Republic of Korea, Vietnam and the US were the main foreign traders on the LSX. Chinese who initially outnumbered other foreign investors have since been overtaken by Thai investors, now the largest group. There has also been a significant increase in the number of other foreign investors. But out of fears of rapid capital inflows and outflows which could have a negative impact on currency management, the government has since restricted the number of foreign shareholders.

Local investors' participation has been very low. They have yet to seek the LSX opportunities even though the government has adopted laws and regulations governing the securities exchange that are meant to maintain a clear policy environment and simplify the listing process. Attracting the private sector to invest in the market in order to raise long term capital has not succeeded yet either.

Two distinct and interrelated questions arise from this persistent problem: why is the volume of trade stagnating? What would it take for it to pick up?

One way to address these issues is to examine the perception of the LSX among the Lao Community. This study attempts to do just that. It aims to deepen understanding of how the Lao community perceives the LSX. More specifically, it aims to assess the level of interest among the general public in investing in the LXS, determine the level of awareness and understanding of the LXS and acceptance of risk (risk tolerance) among Lao people, examine current investors' perception of the LXS, and consider how to increase participation of both investors and companies listed on the LXS.

To do so, it seeks to answer the following five research questions:

1. Is there an investor culture within the Lao community?
2. What is the average Lao investor's attitude toward the LSX?
3. Do investors have confidence in the LSX and/or in stockbrokers?
4. What should the Lao government do to increase the number of investors and make investing in the LSX attractive to the Lao community at large?
5. Is there a need to educate companies with regard to their attitude about being listing on the LSX?

The operative concepts used in this study are discussed first. Attention then turns to the research methodology. Next, the data collected is analyzed. This paper ends with a discussion of the research questions and some recommendations.

## **2. Literature Review**

This section discusses the operative concepts used in this study to address the research questions.

### **- Community**

Broadly speaking, a community consists of a group of people living in the same distinct locality and sharing similar fundamental values (Rifkin et al, 1988). It is a cluster of citizens who have something in common (Lee, 1992). However, while geographic proximity is often emphasized as the main factor in the formation of a community, there must also be a bond created by shared blood, language, history, religion and above all, culture (Upadhyaya (2006). For the purpose of this study, the term 'Lao Community' includes the general population (students, working people, retirees, etc), some of whom may own LSX securities. Some may be aware of the LSX's existence; some may not. It also encompasses urban and rural people regardless of their demographic traits (gender, income, types of job, etc).

### **- Perception**

Perception can be defined as the way people distinguish or understand events, objects, and humanity (Sirgal and Ramanauskas, 1989). People often take action (for example buy stocks) on the basis of their perceptions without considering whether those perceptions truthfully or incorrectly reflect reality. Most of the dissimilarities in perception stems from how people choose and systematize sensory information (Kotler, 2003). As Huang (2003) pointed out, perception and feelings are interconnected. Human's behavior is based on the perception of a real situation, not on reality itself. Investors' actions on the stock market are thus a combination of perception, sensation and community influences (Naveed et al., 2011). Investors often surrender to behavioral inclinations while making investment decisions. They can be illogical as demonstrated by a number of financially-disastrous

inclinations (fear, ravenousness, or emotional responses) to price variations or changes in an investor's wealth (Andrew et al, 2005).

### **- Risk Perception and Risk Tolerance**

Risk is one of the most important determinants of investment decisions (Ozer et al., 2004). Investors are conventional in that they are fearful of losing money (Chambers and Rogers, 2004). Risk perception is the maximum amount of risks that one would like to take and be comfortable with. One way to reduce risk is to make portfolio mix by conducting ratio among stocks and fixed income (Kendirl and Tuna, 1999). The general assumption is that risk is a negative preference that has bad consequences. Risk enhances when gambling is part of the equation and shrinks when there are positive explanations (Brachinger and Weber, 1997). As McConnel et al. (1985) observed, one's risk preference determines specific return preferences. One's willingness to take risk depends on one's level of risk tolerance. Yin (2000) views risk tolerance as an emotional characteristic. Grable and Lytton (1999) studied the different levels of risk tolerance in relation to demographics and determined that in terms of risk-taking and financial strategies, the number of males willing to take risks is high and the numbers of females low. Males are more willing to take risk than females.

#### **• Intention to Invest**

Intention can be defined as "a path of action that one intends to follow [and] an endeavor that guides action and purpose" (www.thefreedictionary.com, accessed on March 12, 2014). Intention is assumed to be a necessary condition for voluntary

action, which may be triggered by perceived opportunities (Ashen, 1992). There is a strong association between intention and action. As Beck and Ajzen (1991) pointed out: "as a general rule, the more favorable the attitude and subjective norms with respect to behavior and the greater the perceived behavioral control, the stronger an individual's intention to perform the behavior under consideration." Focusing on the Nigerian capital market, Obamuyi (2013) determined that the main factors influencing investment decisions are the history performance of the company stock, dividend policy, expected corporate earnings, and expectations of a high profit. These factors can be significantly influenced by the gender, age, marital status, and educational qualification of the investors.

#### **• Institutional/Private Investors**

Investors can be classified as private or institutional investors, regardless of whether they are domestic or foreign investors (Bassen, 2002). Typically institutional investors include insurance companies, mutual funds, banks, and investment firms (Brigham and Ehrhardt, 2002). They generally actively trade shares in order to keep their portfolio attractive. On any given day, in most stock markets, the bulk of the transactions is conducted by institutional traders (Rose and Marquis). Individual investors buy or sell securities for their own private accounts. Barber and Odean (2008), found that when purchasing stock, individual investors have a tendency to focus on shares with large one-day profits and shares in the news. This collective tendency to buy attention-grabbing stock, however, often leads to poor subsequent returns. According to Kaniel et al. (2008), private investors also tend to buy stock when the prices decrease in the earlier month and sell when the

price increases. Unlike institutional investors, who actively traded shares, individual investors tend to buy and hold shares for long periods (Rose and Marquis, 2005). In Lao PDR, the bulk of investors are institutional investors and most of them foreign investors.

- **Securities Exchange**

A securities exchange is a financial market “where securities (bonds, notes, shares) are bought and sold at prices governed by the services of demand and supply” (Keown et al, 2010). Simply put, they are markets where corporations can raise capital and investors can sell their securities to other investors (Di Giorgio and Di Noia, 2001). Stock markets may be divided into primary markets and secondary markets.

- A primary market is a marketplace for the issuance of new securities. For this reason it is also called the ‘new issue market.’ Its principal function is to raise capital from the public by selling a company’s initial shares to the public through an initial public offering (Ojo and Song, 2009). Securities can be directly bought from the issuer. As soon as the initial sale is done in the primary market, any further transaction of buying and selling securities will be traded on the secondary market (Keown, 2010).

- A secondary market thus deals with securities previously issued. It is a marketplace in which formerly-issued securities are sold from one investor to another, which means that the profits from selling on secondary market will go directly to the previous investors; the initial issuer will not get any profit from selling securities. The main function of the secondary market is to provide liquidity to security investors (Rose and Marquis, 2006).

- **Securities Regulations**

Securities regulations are meant to help prevent fraud (e.g. insider trading) and encourage investor confidence (Mbatua, 1994). Rules and regulations are the most important objects of market surveillance. Risk management and surveillance are keys to preserving elevated values and stimulating investors’ confidence (Mungoma, 1995). Legislation governing stock markets generally include listing regulations as well as licensing regulations for brokerage services. Rules and regulations governing the activities of the market (disclosure, accounting and listing standard, etc) should be re-evaluated from time to time (Osei, 2001). One important activity regulated by laws is information disclosure, which is critical for the effective operation of securities markets. Inflexible disclosure requirements boost incentives to list on the stock market (Teye and Jeroen, 2000).

- **Initial Public Offering**

An initial Public Offering (IPO) is the issue of shares from companies that have never before sold shares to the general public (Rose and Marquis, 2006). It refers to the first time a company sells stocks to the public (Kumar and Beattie, 2004). Raising capital is the main reason for a firm’s going public (Li et al., 2007). As they grow, many businesses find that private sources of funding are inadequate for their future growth and turn to investment bankers (Roell, 1996). The likelihood of conducting an IPO increases with an increase in a company’s size (Pagano et al., 1998). Another IPO benefit is the capability to diversify holdings (Ritter & Welch, 2002). It provides an opportunity to partake in the rewards of the increase of the firm (Wei, 2006). Going public also allows firms to gain from a bullish market. They might

issue shares in an IPO to benefit from short-term overestimation, which is called market timing (Baker & Wurgler, 2002). Firms tend to go public when market-to-book ratios are high (Lowry, 2002) and use private forms of financing when equity estimate are low (Lerner, 1994). When the stock market declines companies tend to withdraw their IPOs (Lowry, 2002).

- **Stock Brokers**

Stockbrokers are regulated professionals who perform as negotiators for the buying or selling of stocks or other securities. They are required to obtain a license to operate in the stock market (Malathi and Muthappan, 2013). As an agent, a broker can charge a fee or take commission for the requested stock activities. Generally, for any private investor deciding to participate in the stock market, the broker is the first place where to go. The broker will generate an account for clients to perform on the securities exchange. There are currently two registered stock brokers in Laos: BCEL-KT Securities Co. Ltd, and Lanexang Securities Public Company.

- **Stock Market Incentives**

Incentive schemes are critical to capital market development. Incentives fortify investor confidence in the stock exchange and encourage investor participation (IOSCO, 2002). One common form of incentives is fiscal policy incentives. They often take the form of exemptions from withholding tax on interest and dividends on certain kinds of investment, for example, collective investment schemes for employees or long term debt securities (Mugabi, 2001). Incentives can also take the form of investor protection schemes. For instance, in Egypt, the creation of a Settlement Guarantee Funds (SGF) and an investor protection fund as well as the introduction of specialized liability

insurances for firms in the security industry have been determined to have decreased risk and increase market constancy.

- **Dividend Policy**

There are two ways investors can earn a return; dividend and capital gain. A dividend can be defined as a return on a share. Dividends are an important factor for investors when investing in equity shares (Foong et al., 2007). Many companies pay dividends on their stock regularly, thus offering shareholders a relatively steady source of income (Rose and Marquis, 2006). One of the main objectives of a firm is to maximize shareholder value (Brigham and Ehrhardt, 2002). In theory, corporations do not need to pay dividends to their stockholders. Some never have as they prefer to retain all after-tax earnings (Miller, 1999). An example in case is Apple which until recently and much pressure by investors had a policy of reinvesting its gains or holding on to them. The tax rate on dividend income has been shown to have an effect on shareholders' demand for dividend-paying shares (Rose and Marquis, 2006). Any provision reducing tax rates is likely to stimulate demand for dividend-paying stocks, driving their prices substantially higher as a result. Still, a number of studies found that a relationship between cash dividend announcements and share prices is not observable (Dempsey et al., 1993; Van Horn, 2001; Hansen et al., 1994; and Black et al., 1995).

### **3. Research Methodology**

This study uses a mixed methodology approach. Elements of a qualitative research are combined with elements of a quantitative research. While perceptions, opinions, ideas, and facts - not numbers - constitute the gist of the evidence gathered to address all the issues raised, an added

layer of evidence in the form of opinions gathered from a group of respondents can help further affirm - or disaffirm - the preponderant findings.

Primary data were collected via (i) semi-structured interviews, (ii) unstructured interviews, (iii) questionnaires, and (iv) personal observations. Secondary data were collected from documents.

#### (i) Semi-Structured Interviews

Unlike a structured interview, which has an extremely prearranged set list of questions to which the respondent is encouraged to provide restricted choice responses, a semi-structured interview allows for questions to build up during the progress of the interview.

In this study, 4 semi-structured interviews were conducted. The four respondents were selected based on the different perspectives they offered. They came from the private and public sectors and from the banking/investment and unrelated industries. They include:

- One senior officer who has been working with the LSX since its inception.
- One senior stockbroker from one of the brokerage firms licensed to operate in Laos who was previously based in Hong Kong for five years.
- One manager from one of the two companies listed on the LSX.
- One manager from a state-owned company that may eventually be listed on the LSX.

All the questions asked were open-ended questions, broad enough to broach on a wide variety of LSX related issues.

#### (ii) Unstructured Interviews

Typically, unstructured interviews are based on the natural invention of questions in a natural interaction. 17 unstructured interviews were conducted with people, either 'very', 'moderately', or 'not at all'

familiar with the LSX. The unstructured interviews were conducted with:

- Two managers of a state-owned company that may soon be listed.
- Two respondents employed with domestic private companies in the shipping industry (their firms may be listed soon).
- Five respondents from the Lao National Assembly, all of them support staff with knowledge of the government incentives designed to encourage investors.
- Six university students with various socio-economic backgrounds from the University of Laos. - Two high-level civil servants at the Ministry of Foreign Affairs.

Although the researcher had prepared a series of questions, almost all of the questions asked flowed naturally from the answers provided. The researcher took notes during the conversations and wrote summaries of them immediately after the interviews were completed.

#### (iii) Survey Questionnaire

The target population in this survey questionnaire is participants at a seminar at the Headquarter of the LSX in Vientiane. Entitled "Color of Investment Gateway 2014," the seminar was held on 22 March, 2014 and intended to provide information and advice to Laotians who may want to invest in the LSX. The researcher had contacted the LSX staff prior to the seminar and was given permission to attend the seminar and distribute questionnaires. Approximately 1,300 people were in attendance.

One hundred questionnaires were randomly distributed to the target population as they came in and were to be filled out and given back to the researcher at the end of the seminar. The researcher essentially relied on appearances (well dressed, business like, casual, etc), gender, age (to the extent that it can be determined)

and demeanor. The respondents were briefed about the objective of the study and guaranteed anonymity. They were also told about the purpose of this research.

The questionnaire consists of 7 parts:

- Part A focuses on the demographics of the respondents
- Part B seeks to probe their understanding of technical terms.
- Part C zeroes in on the amount of money they have invested, risk perception and risk-taking.
- Part D seeks to determine their perception of the level of protection offered in the industry.
- Part E focuses on the tax aspect of investment and on stockbroker services. It uses a five-point

Likert scale, (with 1 meaning “strongly disagree”, 2 “disagree”, 3 “normal”, 4 “agree”, and 5 “strongly agree”).

- Part F looks at the nature of the services stockbrokers provide. This part uses a four-point

This part uses a four-point Likert scale (1: “good”, 2 “average”, 3 “poor”, and 4 “excellence”).

- Part G focuses on the obstructions to the LSX development.

All parts except for Parts E and F use “tick” boxes.

#### (iv) Personal Observations

Many of the observations made for this study were made by dint of circumstances; a discussion with a friend, a family member, a colleague at the company where the researcher was previously employed. The researcher also walked downtown, around the shopping mall, near the new construction sites (mostly large offices). A large part of these observations were meant to have a sense of whether the pool of potential investors would increase in the future.

#### (v) Documents

As Yin (2003) stated, “the most important use of documents is to substantiate and supplement confirmation as of other sources.” The documents used in this research to collect data include among others: reports from the two companies listed, LSX documentation and brochures, websites from various government agencies, local dailies, international newspapers and magazines.

### 4. Research Findings

All the data gathered as part of the mixed methodology are discussed next.

#### (i) Findings from the Survey Questionnaire

A majority of the people surveyed were males (59%). 37% of them were between 21 and 29 years old, 26% fell in the 30-39 age category and 18% in the 40-49 age category. Another 13% were in the 50-59 year group and 6% of those surveyed were over 60. Obviously, interest in the LSX is not limited to one age group. Even though slightly more than half of the respondents were below thirty, Laotians of all age are eager to learn more about the LSX as an investment vehicle.

An overwhelming majority of the people surveyed has a bachelor degree (57%) and another 17% a Masters’ degree. Clearly, those showing an interest in the LSX are well educated. This is no accident. Their education level not only predisposes them to seek knowledge and learn fast but also means that their income level is such (or will be in the case of students) that they have or will have money to invest. A majority of the respondents (56%) worked for state owned companies and a sizeable 28% of them were either self-employed (14%) or civil servants (14%). A low 11% were employed in the private sector and another 5% held various part time jobs classified under ‘other occupations’. The



fact that more than half the people surveyed work for state-owned companies and another 14% for the government suggests that job-security may take priority over compensation, which, when transposed to the investment realm suggests in turn that a majority of those surveyed may not be risk takers. Of course, the argument can also be made that those facing risk (including job insecurity) on a daily basis may not want to take additional risk with stock investment and would rather go for a steady income stream, for example, in the form of a cash deposit investment.

The following summarizes the respondents' answers to the survey.

- **Knowledge and Understanding of Capital Markets:** It is important for investors to understand how the market operates and know the range of financial products available prior to even thinking of investing in securities, all the more as new products continue to emerge. Most respondents have heard of the capital market terminology before but almost half of them do not know what they mean. The only terms with which they are familiar is 'share' (60% of the respondents), which outlines the need for more LSX-related education as a first step toward encouraging Lao people to invest in stocks. Their sources of knowledge vary. Internet represents their most important source (55%), followed by newspapers (52%) and schools (48%). Few obtained knowledge from fund managers (2%) or investment advisers (5%) or brokers/dealers (14%).
- **Level of Investment:** 36% of the respondents have invested more than LAK 10 million (US\$1,250), 23% LAK 7-10 million (US\$875-1,250), 15% LAK 1-3 million (US\$125-375) and 11% LAK 3-5 million (US\$375-625). A majority of those investing in stocks (61%) do not frequently buy shares, which suggests they are cautious and have adopted a "wait and see" attitude, needing to know first how the stocks will behave over a relatively long period of time, a frequent attitude among private investors. Overall, a good majority of them are interested in the LSX as a vehicle for investment (hence their attending the seminar). 11% claim to have no interest whatsoever in investing in the LSX in the future.
- **Investors' Risk Tolerance and Perception:** 23% of the respondents fall into the 'moderate risk' category, 20% in the 'low to moderate risk' category and 13% into the 'low risk' category. 10% are risk averse.
- **Investor Protection:** The findings indicate a fair level of confidence with 52% fairly confident, 13% very confident. 26%, however, have no confidence in the process. A considerable proportion of investors see the financial products unsuitable to their needs either out of a lack of information or simply as a result of a failure by the industry to respond to the needs of potential Lao investors and come

up with different financial products, which of course first presupposes a solid understanding of what they need. 52% of the respondents are fairly confident in the complaints handling mechanism, 6% very confident and 10 % neutral, leaving 16% of them with no confidence in the way complaints are handled.

- **Stock Market Tax Incentives:** A majority of the respondents agreed (53%) and strongly agreed (23%) with the fact that lower tax rate on security investment would be an incentive. 15% were neutral, with another 5% disagreeing and 4% strongly disagreeing. 26% of the respondents strongly agreed and another 33% agreed that the removal of the capital gain tax would operate as an incentive for people to invest in the LSX. An additional 28% had no opinion, thereby indicating that in their eyes it is neither an incentive nor a deterrent. A low 9% disagreed and (2%) strongly disagreed with the notion that it would act as an incentive. An overwhelming majority (86%) see tax relief granted on the expenses incurred as an incentive, 13% are neutral and just only 1% disagreed. Clearly any form of tax saving resonates well with the public.
- **Stockbroker Services -** Whenever investors want to commit funds to the LSX, one of their primary concerns is the ability of a stockbroker to provide valuable information and insightful guidance in the choice of stocks

and timing of purchases and sales and also whether they can be trusted to work zealously for their clients, regardless of the amount invested. A majority of the respondents (48%) believe that the amount of information provided is poor and leave much room for improvement with another 42% reporting that the advising provided by stockbrokers is just average. Only 5% regard their services good and another 5% as excellent. Clearly most of respondents are dissatisfied with the kind of information brokerage firms provide. One of the misunderstandings (and expectations) is that stockbrokers should know which shares are likely to grow and should be held liable whenever their predictions turn out to be wrong. While they are expected to know the market well and anticipate fluctuations, no one should be expected to know with certainty how the market will act. Stockbrokers may be expected to work miracles and provide winners even though much of the fate of a stock is beyond their control. As a whole, the perception of stockbrokers is not very positive, which may be an issue in terms of promoting the LSX.

- **Major Impediments to the Efficiency and Development of the Securities Exchange -** 45% of the respondents see the lack of information transparency as the main obstacle to any future development of the LSX. Another 27% consider that securities

regulations pose a challenge as they fail to create a climate of trust. 11% regard the lack of real tax incentives as a serious impediment. 9% of the respondents view stockbroker services (the lack of quality) as a barrier to growth. Another 8% click the 'other segmentation' case, indicating that a miscellaneous list of small problems, which on aggregate may become big obstacles, hampers the efficiency of the LSX.

(ii) Findings from the Interviews and Documentation Support

The following is a summary of the content of the interviews by themes.

- **Laotians' Risk Perception and Risk Tolerance:** Lao people's perception of the LSX and their level of tolerance of the risks associated with it are based on their knowledge/perception of the LSX itself and the process involved. It largely depends on what Laotians know about capital markets in general and the LSX in particular. According to the senior LSX officer, Laotians are quite fearful of investment risks, especially risks associated with the LSX which is very new, all the more given the Lao culture and its emphasis on a laid back attitude. Lao people generally do not like to have to deal with many challenges. As emphasized by most of those interviewed, integrating risks as part of the investment equation may require time. It is also their view that investors currently participating in the market still have a moderate-to-low-high risk

tolerance. They believe this will improve as interest in the LSX grows. More Lao people are now interested to learn about financial markets (which does not mean though they will invest in stocks). Potential investors may, however, grow to accept that returns are commensurate with the level of risks taken.

- **LSX Regulations and Potential Investors:** According to the LSX officer, there has been an extensive development of the regulatory framework governing the LSX as part of an effort to instill confidence among potential investors. But according to a few interviewees well-versed in LSX matters, the real challenge is to effectively implement and enforce the rules and regulations that have been adopted. Unless they are properly enforced, they are useless. The interviewees are especially fearful of insider trading which results in asymmetrical information and is perceived as grossly unfair and market distorting. They believe a comprehensive set of regulations covering issues such as dividend receipts, remittance, and voting rights should be adopted. This could discourage the participation of foreign investors, seen by many of those interviewed as important to promote the growth of the LSX and a token of trust. The LSX officer's view is that the LSX regulatory body is determined to ensure a fair process and project a positive image. This echoes the beliefs of some of the investors

interviewed. In his opinion, the set of minimum standards which companies must meet in order to be listed on the LSX helps to project an image of fairness and efficient management as well as proper governance. However, according to the managers, those stringent measures make the process burdensome and lengthy and may thus operate as a disincentive. All the interviewees concurred that the most important issue is the need to maintain the confidence of the public by ensuring accurate and fair information disclosure and an environment supporting market openness.

- **Need for More Companies to Become Listed on the LSX:** The fact that there are only two companies listed on LSX is seen by many interviewees as a drawback as investors have a very limited amount of shares to choose from. In their eyes, the LSX needs to have more companies listed, so that if some companies listed are not doing well others can be picked up to compensate for it. As one of them pointed out, it all comes down to risk perception and risk dilution; the more stock options they are, the more investors can diversify their portfolio.
- **Difficulty Convincing Companies to Become Listed on the LSX:** From the discussion with the two managers, it appears that while on the one hand companies see the benefits of being listed, most notably in terms of their ability to

raise capital, on the other, they see it as an imposition of additional burdens and pressure, especially as they need to keep achieving optimum performances in order to keep attracting public interest. As pointed out by another interviewee, many firms believe that the advantages of listing on the LSX are largely erased by the risks they see associated with them (proper accounting and external auditing are not usually practiced in many enterprises, a practice that LSX listing would end). Changing the mindset of company owners, however, is still the biggest hurdle to be overcome. As mentioned by several interviewees, many company owners don't understand why they have to reveal their financial statements to the public.

- **Stockbrokers' Perception:** Most of those interviewed believed that the low number of stockbrokers is one of the factors keeping some people from investing in the LSX. The lack of competition also impairs investor confidence. Another problem is that the two brokerage firms are located in Vientiane, which makes it difficult for potential investors located anywhere to actually meet with the brokers.
- **Tax Incentives Promote Transparency, Good governance and Increase Public Welfare:** The government would ultimately benefit from lowering the corporate tax rate for publicly listed companies as these companies would be required to operate

transparently and therefore give the government the full amount of taxes owed. Many companies provide inaccurate information on their earnings to avoid paying taxes in full. Improved transparency would boost corporate growth as it would increase the confidence of investors which would translate into more capital raised for companies to fund their growth, eventually leading to more employment and income opportunities for Lao people.

- **Dividend Payments and Intention to Invest:** Some of the interviewees admitted that dividend payment can be one of the factors stimulating the LSX, especially for Lao investors. As they explained, if Lao people can see the obvious benefits of stock ownership (bi-annual dividend payments), they are more likely to invest in the stock market rather than deposit money in the bank. As pointed out by the LSX officer, dividend payment tends to be paramount in the decision to invest in the LSX. Lao people regard investment in land and gold as better alternatives. One potential investment deterrent pointed by some of the interviewees is that while the time-matching trading system currently applied in the LSX indirectly encourages speculation and price manipulation by experienced traders (the long lag between offer time and buying/selling time provides rich information on price and quantity to be traded). Unlike other countries, the LSX also does

not have a Put-Through trading system, which might make it a less attractive option for large investors.

- **Importance of Sound Economic Fundamentals:** As made clear in several interviews, macroeconomic stability is one of the key factors shaping the confidence of foreign investors in the LSX. Since the adoption of the NEM, the Lao economy has enjoyed a rather favorable macroeconomic environment and grown remarkably despite short-term impacts from external vulnerabilities. Moreover, inflation has been kept under control at a single digit for many consecutive years. Investors consider the ability of the government to maintain the economy's strong fundamentals and supervise and manage domestic financial markets as important factors for deciding whether to invest in Lao securities.

(iii) Findings from Personal Observations  
The following is a summary of the field observations made by the researcher in relation to the research questions.

- **Preference for Gold and Real Estate:** Family members and friends of the researcher do not talk about the stock market but about real estate and gold. They clearly regard gold as a good and relatively safe investment vehicle and are always checking whether this is a good time to buy or sell. As with real estate, they look at it as something tangible and easy to deal with which does not require special knowledge or a broker to buy or sell. Buying stocks is hardly ever

considered as an option. These observations are supported by observations made at the main shopping mall downtown Vientiane where the number of shops selling gold had increased substantially (some even have branches in other parts of town). A few years ago, there were only a handful of them. This change suggests that Laotian people are buying more gold than ever. Laotian people will not buy gold when the price drops or sell when it increases; they tend to buy gold when they have money. In many cases, they will not sell it except if they have an emergency case or need money urgently.

- **Conspicuous/ Luxurious Consumption on the Rise:** There is a growing sense of opulence in Vientiane. It is not just about seeing more gold stores but also about the mall's offerings in general. There are now a whole array of venues offering luxurious products such as expensive watches from abroad, handbags, including some famous brand names, as well as expensive designer clothing boutiques and stores offering high-priced electronics equipment. Such an assortment of stores would have been inconceivable even five years ago. What this suggests is that if there is now more money to be spent on luxurious items, those same well-off consumers could be LSX investors since they clearly have discretionary income. These changes signal the emergence of a potential pool of LSX investors.

- **A Rising Land-Ownning Group of Investors:** As the observer noted, many Laotian people that have recently come into money (mostly through selling downtown land) are eager to show their newly-acquired wealth. With legacy land fetching unprecedented high prices in the Lao capital, opportunities for the LSX grow. For the moment, however, much of the newly-acquired wealth goes into building big houses and buying luxury cars and other items typically associated with nouveau-riche status.
- **More Capital Flowing in Laos:** Another important development in terms of potential LSX trade increase is the growing inflow of FDI. Every time the researcher goes back home, she notices more construction activity around the capital as large commercial real estate projects are under construction. They stand as clear indications of the increasing infusion of foreign capital as more companies are conducting business in Laos and find themselves in need of office space. Some (or all) of those companies may one day be listed on the LSX. Apart from raising the profile of the LSX, they will also create high-paying managerial-level jobs and bring more expatriates to the country, some of whom may decide to invest in the LSX.
- **Lack of Investment Culture:** Laotians do not have an investment

culture the way Thai people do. As observed by the researcher, at her university in Thailand, it is not infrequent for students to talk about the stock market and exchange views on the best bargains and trade tips, something that in the researcher's own experiences rarely occur on Lao campuses or in any other public places for that matter. TV programs in Thailand also frequently refer to the Stock Exchange of Thailand (SET). In fact, several times a day, news people report directly from the SET, something which again does not happen on most channels in Laos.

- **Governmental Efforts to Disseminate LSX-Related Knowledge:** The low LSX media coverage is partly offset by the government's attempt to eventually make the LSX a household name, arguably a tall order at this point. One clear example is the seminar which the researcher attended. Whether such efforts will translate into a shift in investment from gold and real estate to stock, or at least turn the LSX into another viable investment option remains unclear. It is the researcher's view that it will take a lot more LSX-related events for a real shift in the perception of the LSX as a sought-after form of investment to occur.
- **Industry-University Cooperation:** The main state university and the APM Securities Company Ltd. have developed a LSX-related course. Entitled LAO Professional

Investment Banking-Program I (LA-PIB I), the course was offered for the first time on April 26, 2014 as part of the university curriculum. The course focuses on material directly relevant to the LSX and includes topics such as the mechanisms and structure of financial markets and financial product evaluation. Lectures are given by highly-educated professionals and professors from Thai Universities. While primarily intended to train future LSX and investment bank employees, it is also meant to disseminate LSX knowledge among the student population and may eventually change the Lao community approach to LSX investment.

## 5. Conclusion and Recommendations

The five research questions will now be addressed based on all the data reported above and some conclusions drawn.

RQ 1: Is there an investor culture within the Lao community?

Laotians do not have an investment culture yet the way, for example, Thai people do.

The LSX has failed to enter the collective mind. Whenever the researcher spends time in Laos, she hardly ever hears people talk about the stock market. It is only when she broaches the topic that people may volunteer comments. The LSX media coverage is also low. This is in stark contrast to the researcher's experience in Thailand where students talk about the stock market and exchange views on the best bargains and where TV programs frequently refer to the SET. There is also a channel for money markets.

Many Lao people do not know anything about the LSX, some do not even know it exists and among those who know of its

existence, few are willing to take risks. Demographics offer little hope in terms of changing the present lack of investor culture. While the younger generations may know of the LSX existence, this does not mean they regard it as an investment opportunity or something they should look into. Regardless of age, the desire to invest in stocks is low. Perhaps things may change the day some 'happy stories' make the headlines.

The lack of an investment culture is also linked to the perception of risk in the country. Most people are risk adverse. This is a comportment that does not easily go along with an investor culture, which is premised on some level of acceptance of risk. Another important point is that despite effort by the government through tax incentives to encourage investment in the LSX, those fiscal benefits have failed to generate an investor culture.

RQ 2: What is the average Lao investor's attitude toward the LSX?

Individual LSX investors form a small group given their avowed preference for other types of investment. For those interested in the LSX, as was the case with some of the interviewees, caution prevails. Lao investors considered that the LSX is a new sector in Lao that requires to prove itself first. While investors may understand that it is not risk free, they are also cautious in their approach to investment. They also see the laws and regulations as not stable yet and believe that the legislation may favor them more in the future as the Lao government continues to improve the regulatory framework in a way that benefits investors. Much of their attitude is also dictated by the economic environment. Laos' solid financial fundamentals provide a good investment climate. In their view, the strong performance of the Lao economy will translate in equally strong performances on the LSX as more companies will be listed.

Investors see the LSX turning into a good investment proposal in the long term. As the country prospers, they feel the value of their stocks will increase while in the meantime they will be collecting dividends. The preference of investors for dividends over potentially very lucrative short-term capital gains bespeak of the deeply-entrenched reluctance to take undue risk and the attachment to more predictable form of investment income.

RQ3: Do investors have confidence in the LSX and/or in stockbrokers?

Investors have confidence in the economy and the direction it is going. On the basis of the country optimistic economic outlook, investors see a good future in the LSX which does not, however, necessarily translate into confidence in the LSX as an institution yet as it is still largely viewed as being in its infancy. While investors have confidence in the money-making potential of the LSX, they are far less confident in its ability to discipline itself and navigate through the risk of insider trading or any other form of market distortions that would result in asymmetrical information. Even though the LSX does its best to reassure investors of the fairness and transparency of the process, doubts remain in investor's mind. The data collected also indicate that the limited number of companies listed affect investors' decision and thus their confidence in the process. In their mind, more companies listed means that more companies trust the system. As to brokerage firms, one of the main concerns is their low number, as it precludes. Interviewees believe brokers may lack the incentives (i.e., a more competitive environment) to perform at their best and provide reliable services. Finally, since the two companies are located in Vientiane, the level of confidence is lower in outer parts of the country as there can be no



physical contact with customers unless investors travel to Vientiane.

RQ4: What should the Lao government do to increase the number of investors and make investing in the LSX attractive to the Lao community at large?

According to the interviewees, especially those well versed in LSX matters, the Lao government is doing what it can to have more companies listed, which would translate into more capital raised, more investors and enhanced confidence in the process. So, one way to attract more investors is to increase the number of companies listed. More diversity in terms of company offerings, more choices in terms of shares available would make the LSX more attractive. So far, the government has been mostly focusing on incentives to boost the number of companies listed such as a reduction in the profit tax rate of 5% for four years.

Another area is FDI as more foreigners investing in the country may in turn translate into more investors listed.

Another initiative pointed out by interviewees is better communication with regard to the LSX and its role. If people can better understand how it benefits the country, bringing in capital and how regulations are meant to protect investors, over time they may be more willing to invest. This could be done through the media and university educational programs.

More fiscal measures to make investment more attractive in the form of low capital gain taxes would also contribute to drawing investors to the LSX.

RQ5: Is there need to educate companies with regard to their attitude about being listing on the LSX?

The LSX needs more companies listed. Obviously, this is easier said than done. One way to encourage companies to be listed is to educate them on the significant role the capital market can play in their

fundraising. They need to comprehend the mechanism of the stock market. Many company owners, however, do not like the fact that they have to disclose their financial statements to the public. While they may understand that in exchange for capital, those who invest their money (and partly own the company as shareholders) have the right to know how it is used. That does not mean, however, managers are willing to comply with the financial disclosure requirements. It is clear though that in the absence of such requirements, few investors would be willing to risk their money as they would have no way of assessing a company's financial health. Insisting on the trade off and the huge gains in terms of capital raised and expansion potential may be one avenue to bring more companies to the LSX.

Changing the minds of company's owners is not easy; hence the need for the LSX to organize more conferences and seminars. An IPO-friendly fiscal policy would also be a good incentive. Finally, to increase investors' trust, the government is also proposing having companies audited by self-private accounting firms as opposed to state-owned companies' internal auditors.

#### Conclusion

As a small nation in economic transition it is important for Laos to have a stock market. The possibility to raise capital and receive dividends can substantially raise the level of investment of companies and the income of many Laotians. This, however, presupposes in the first place a positive and accurate perception of the LSX and its role in the economy, which is far from being the case. Too few people know about the LSX and among those who know about it, still too few are willing to invest, as they still prefer other modes of investment (gold and real estate in particular). The biggest hopes reside in young people, who are more open to new

ideas and new forms of investment, especially since they now are told and taught about it at university. As this study shows, this does not mean, however, that they are willing to invest in stocks; at least not yet. But they represent the biggest potential, all the more as with the solid employment prospects for those with good qualifications their income level is likely to increase. Although it will take time for the LSX to raise the number of companies listed, establishing a capital market at an early stage of the country's development will eventually translate into a wider and more positive perception of the LSX. The fact that Laotians do not understand much about how the stock market operates and do not know how to trade is a temporary obstacle to the LSX growth. As the Lao government is expanding funds to boost education and raise the country GDP, knowledge, perception and acceptance of the LSX will keep growing.

## 6. Recommendations

Based on all the above, the following recommendations can be made:

1. More seminars and conferences: It is clear from the data collected that (1) the low number of companies listed tends to act as a deterrent to investors and impair their confidence in the LSX and (2) that there are misperceptions about the LSX regarding the level of risk involved and the gains to be made. Potential investors should be encouraged through conferences and seminars. There have been some, but most of them have been in Vientiane. The LSX needs to go on the road and go to the provinces to let Lao people know about the LSX and its benefits both to investors and companies.
2. More stock brokers: More credible financial intermediaries (stock brokers) and a greater number of them are needed. Banks could also be allowed to sell stocks and advise their clients.

3. More incentives: The government should also keep working on incentives to have more companies listed. The more companies listed the better their governance is likely to be. Lao companies have to be re-oriented about the modern trends and tenets of doing business. Lao companies must use the LSX to their advantage to raise the needed capital to expand beyond the borders of Laos.

4. More foreign-friendly investors: More foreign investors should be allowed to trade on the LSX. This requires a change in the legislation as well as in the perception of foreign investors (this does not mean, however, that safeguards against potential abuses should be eliminated). The development of securities rules and regulations on the management and protection of foreign investors should be given high priorities. Criteria on the listing of companies and the percentage of foreign participation should also be re-examined.

5. Embrace more state-of-the-art technology: The LSX must take technology to the next level and allow online trading which would empower the average person with internet access and enough money to open an account and invest in the market without dealing with a personal broker. Online trading makes the market more accessible.

6. Keep sound economic fundamentals: A momentum of strong growth and economic stability should be maintained to create a supportive environment for further development of the LSX.

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