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# **To Invest or Not to Invest? Determinants of Low Stock Market**

## **Participation: Qualitative Perspective from Pakistan Stock Exchange**

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## **Abstract**

**Purpose:** This research endeavors to explore the factors that deter households in Pakistan from investing in the stock market. The contextual setting of the study will be provided by the households of Pakistan.

**Design Methodology:** The methodology employed in this study is qualitative in nature, utilizing techniques such as in-depth interviews designed to capture rich and nuanced insights from participants. The research employed a qualitative approach by conducting open-ended unstructured interviews to investigate and provide new perspectives on this issue of low household participation in the Pakistan stock market.

**Findings:** Through qualitative investigation, the study found that the major factors influencing households' willingness to invest in stocks include uncertainty, lack of trust, limited financial knowledge, risk, complicated process, information transparency issues, non-Islamic views about stock investment, and taxation issues.

**Practical Implications:** The study's findings have practical implications for regulators and firms listed on the Pakistan Stock Exchange. The identified reasons for low stock market participation can be addressed through initiatives such as improving information transparency, simplifying the investment process, and providing financial education to households to encourage their participation in the stock market.

**Originality:** This study offers novel insight into the reasons behind household participation in the Pakistan stock market, which has practical implications for stakeholders in the financial market. The utilization of open-ended unstructured interviews provided a unique approach to exploring this emerging phenomenon.

**Keywords:** PSX, Stock market participation, Uncertainty, Risk, Households.

**JEL Classification:** G1, G2, G5, G51, G53

## 1. Introduction

The economic decision made by households and organizations is contingent on the element of uncertainty. Uncertainty remains the central challenge in households' daily lives, and investors are no exception. While making an economic and financial decision under uncertain conditions is challenging, this becomes probably more daunting when it involves stock selection among available alternatives. Stock market investments contain an element of uncertainty rather than risk alone (Adebayo, et al., 2022; Ali, et al., 2022; Darsono, et al., 2022; Gohar, et al., 2023). The uncertainties surrounding stock market investments are responsible for the complexities in stock investment decisions (Kim, 2021; Van Der Westhuizen, et al., 2022). The stock markets provide a mechanism for interacting between resource surplus and resource deficit units (Wong, et al., 2003; Lean, et al., 2007; Xu, et al., 2017). The stock market is subject to higher returns but with a high tendency of risk and uncertainty (Jaiyeoba, Adewale, Haron, & Ismail, 2018). Categorically, the stock market has four participants; regulators, listed companies; institutional investors, and individual investors. Listed companies issue stock to raise equity financing while investors (institutional and individual) buy stock to earn higher returns (Chen, et al., 2008; Batmunkh, et al., 2020). Investors always consider themselves rationale and make predictions about future earnings, stock prices, and the economy by using available information (Mumtaz & Smith, 2021).

The literature based on investment decisions holds the view that the financial choices of institutional and individual investors remain divergent due to their level of risk tolerance and available resources. The institutional investor reflects a high-risk tolerance level due to expanded resources and expertise. While on the other hand, individual investor presumes a low level of risk tolerance due to their limited resources and financial expertise. Past literature remains devoted to examining investment decisions in the context of institutional investors while overlooking the significant aspect of individual investors (Wong et al, 2004). The rising discretionary income has increased the household's tendency to participate in stock market investments (Naveed, Ali, Iqbal, & Sohail, 2020). The improved stock market participation enables companies to access the additional stream of equity financing and mobilize domestic savings in productive ventures (Yang, et al., 2019; Lakshmi, 2022). Moreover, higher stock market participation remains one of the economic development indicators to reflect financial inclusion. However, households remain reluctant to participate in stock market investments. The reason why individuals would rather deposit their savings in savings accounts than invest in shares is still unclear. However, empirical evidence posits that households do not persuade toward stock market investments due to high uncertainty. Several seminal studies have devoted their devotion to understanding why individuals do not participate in the stock market trading and can make sound financial choices (Abul, 2019). Past studies have addressed that households lack requisite financial knowledge (Gao, Meng, & Zhao, 2019), lack relevant information (Naveed et al., 2020), bounded due to certain psychological biases (Jaiyeoba et al., 2018), and high element of uncertainty, these elements are central to bound individual households to participate in stock market investments.

The complexity of financial markets raised uncertainty, which in turn has substantial implications for investor trading behavior. To relieve the uncertainty, investors select investment opportunities from financially sound companies (Jaiyeoba, Abdullah, & Ibrahim, 2019). One of the potential reasons for household low stock market participation is the element of uncertainty. Stock market investments are subject to uncertainty rather than estimated risk (Naveed, Farah & Hasni, 2021). Although contemporary finance theories are based on risk while behavioral finance focuses on thought processes while making financial decision making as investors are no longer rational when facing uncertainty (Kaustia Conlin & Luotonen, 2023). The risky investment decision contains certain probabilities about the future outcomes of returns; however, in the context of stock market investments, the future investment often remains uncertain. Therefore, uncertainty remains the central element of resistance for households to participate in stock market investments (Naveed et al., 2020). Past studies expounded in past literature do not provide explicit reasons why households' participation in stock market investments remains bounded (Farah, Naveed & Ali, 2023). Studies remain limited to pointing out the central determinants which influence the household's participation in stock market investments (Ahmad, Naveed & Ali, 2022). Additionally, most of the studies have used objective measures to examine the household's investment decision and their investment strategies in the context of stock market investments (Al-Hiyari, & Kolsi, 2021). The household investment attitude toward stock market investments also remains limited due to the unavailability of data. Most of the studies remained deductive in nature and offered theoretical explanations regarding households' resistance to participation in stock market investments (Chen, Dai & Guo, 2023). The objective measure to examine the phenomena of household investment behavior provides limited evidence regarding their perceived investment behavior (Naveed, Sindhu & Ali, 2020). Therefore, alternative research design such as qualitative strategy remains robust to explain why households remain reluctant to participate in stock market investments (Yousaf, Ali, Naveed & Adeel, 2021). Additionally, most of the studies have been conducted in the context of developed economies where the income level remains high and households have a higher level of financial literacy and risk tolerance (Huber, Huber & Kirchler, 2021). Moreover, developed economies have a higher level of financial inclusion than developing economies. Accordingly, the findings in the context of developed economies do not provide robust explanations regarding the household's behavior toward stock market investments. The households of each economy reflect divergent micro and macro-economic factors which shape their perceived value regarding stock market investments (Shi, Shen & Ma, 2021). Cultural and socio-economic differences shape the behavior of companies and stakeholders divergently around the globe. The literature based on stock market investments reflects that studies in the context of household investment behavior remain limited and there is no such agreement regarding the determinants which remain central to resistance to stock market participation (Briggs, Cesarini, Lindqvist & Östling, 2021). The studies that remain subjective in nature remain limited in finance, which warrants additional evidence to explore the phenomena of households' perceived resistance toward stock market investments (Gao et al., 2019; Attiq et al., 2021). The individual decision-making process contains perceived subjective and objective aspects of an investment opportunity.

Categorically, investor behavior examines cognitive and emotional factors exhibited by individuals, traders, and financial experts during the planning process (França & Hershey, 2018; Xinmin et al., 2019). Stock market investment decisions are subject to intense complexity and unprecedented challenges. Consistent opportunities in the stock market are affixed with relative risk and uncertainty, which intensify the investment decision complexity. Stock market investments offer higher returns at the cost of higher risk, and thus, pose challenges to investors while making their financial choices. That is why investors expect an extra return for that additional risk (Nguyen, Gallery, & Newton, 2019; Moon et al., 2017). Therefore, household investors' investment decisions revolved around the complex pendulum of risk and return. The complexity of the issue raised scholars' attention to devote their efforts to understanding how household investors trade and understanding the implications of their trading behaviors to financial markets (Athreya, Ionescu & Neelakantan, 2021).

The stock market uncertainty is relieved by using relevant information, as it plays a critical role in shaping the economic choices of households. The institutional investor has specialized tools to make sound investment decisions; however, individual investors usually rely on broker advice or available financial information. Based on available financial information households perform fundamental and technical analyses to predict the future returns of stocks. Historical information only provides reasonable assurance about the prospects of a business entity and does not guarantee that it will result in positive returns (Khan, Tan, Chong & Goh, 2021; Qureshi et al., 2022). Information asymmetry and earning management practices have been extensively examined in past literature. Both asymmetry information and earning management practices adversely affect the household's investment decision. Therefore, households remain reluctant to participate in stock market investments (Ali, Yousaf & Naveed, 2020; Abbas & Ali, 2022). The primary purpose of this study is to determine why Pakistani households do not like to put their money in equities.

### ***1.1.Contextual Setting***

Pakistan, a South Asian Islamic state came into existence on 14<sup>th</sup> August 1947. Since its independence, the country has gone through different economic and financial challenges. Pakistan is the world's fifth most populous country with a population of approximately 212.2 million and a literacy rate of around 59%. Accordingly, the financial inclusion ranges almost 14%. The lower literacy level and financial inclusion are major reasons for its economic hardship and lower economic development. Besides such hurdles and challenges, the Pakistan Stock Exchange is one of Asia's best-performing stock markets. According to Bloomberg, PSX is the outperforming market in Asia and the fifth best-performing stock market around the globe (Naveed, & Bashir, 2019).

The Pakistan Stock Exchange (PSX) was established on 11th January 2016 after the merger of the Islamabad, Karachi, and Lahore Stock Exchanges. PSX's origins were laid with the foundation of the Karachi Stock Exchange in 1947, the Islamabad Stock Exchange in 1992, and the Lahore Stock Exchange in 1970. 542 companies from 35 different sectors are listed on PSX, and the total market

capitalization is \$72 billion. Investor remains one of the prime stakeholders in the stock market, and their role in shaping information practices is paramount (Naveed et al., 2020). However, the PSX is dominated by institutional investors, with only over 250,000<sup>1</sup> retail investors participating in stock market investments. Household participation is considerably low, and the reason for such low participation is unknown. Most of the literature on the institutional investment decision-making process has been well-documented. However, there are limited empirical pieces of evidence in the context of individual investors and their trading behavior. Therefore, by using the household perspective, this study aims to understand the potential determinants of their resistance to participating in stock market investments. The design of qualitative research has been used to explore the phenomena as the subjective reality is best suited to explain the users' perspective regarding a phenomenon (Abbas et al., 2021b). Though the reliability and validity of the design of qualitative research remain limited to selected contexts, it is presumed to offer novel insight regarding issues that have not been previously addressed effectively (Zhang, Jia & Chen, 2021). The reasons why households remain reluctant to participate in stock market investments are contingent on a specific context. The demographic and macroeconomic variables of each country remain divergent which hinders the generalization of findings being conducted in other contextual settings (Jaiyeoba et al., 2019; Abbas et al., 2021a). Accordingly, this study intends to explore the potential reasons why households in the context of Pakistan do not participate in stock market investments. The following section is outlined as, methodology, followed by results, discussion, and conclusion.

## **2. Research Methodology**

A design of the fundamental qualitative research has been adopted to finalize the sample size, data collection technique, and data analysis technique. The design of qualitative research is best suited when there are limited a priori pieces of evidence regarding phenomena. A design of qualitative research is adopted to explore and examine the meaning individuals or groups of individuals ascribe to a particular problem. The design of qualitative research contains a systematic process of research that involves emerging questions and procedures, data directly collected through participant's settings and inductively exploring new themes to interpret the meaning of the naturalistic data. (Creswell, 2020). The underlying philosophy of the current study is interpretivism. Interpretivism reflects naturalistic data and offers novel insight based on qualitative data. The approach of the current study based on research philosophy is inductive in nature. As the question is formulated to address have not been deduced from past studies and offers an inductive understanding of the issue under investigation (Sindhu et al, 2021). A qualitative strategy has been selected to collect the data through conducting unstructured open-ended interviews. The time horizon of the study reflects the time period in which the qualitative data has been collected. The study remains cross-sectional in nature as the data has been collected at one point in time. Based on the research paradigm and strategy, open-ended interviews have been conducted to get an in-

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<sup>1</sup> <https://kasb.com/blog/pakistan-macro-blog-where-are-the-retail-investors/>

depth understanding of the phenomena relevant to households' intention to participate in stock market investments. The unstructured open-ended interviews are a naturalistic source of data collection and offer insight into new themes which are robust to offer an alternative explanation of the phenomena. The average time of an interview is approximately 10-15 minutes.

The households have financial capability; however, remain reluctant to participate in stock market investments and are being targeted to get their insight and understand their perceived hindrance regarding stock market investments. The sample size of the qualitative study remains divergent from quantitative studies. Align with past studies a sample of ten respondents from the education and banking sectors have been finalized to get the naturalistic data and understand why households in the context of Pakistan remain reluctant to participate in stock marketing investment. The convenient sampling technique has been selected to locate the sample size. The formal consent of the participants has been availed to get their perceived views through unstructured open-ended interviews. Detailed unstructured open-ended interviews have been conducted to determine the respondent's insight into stock market participation. The interview consent has been taken and the objective of the study has been shared with the respondents who have participated in this study. The first section of the interview contains introductory information and the demographic and academic background of the respondents. The respondent's responses were recorded, and important notes were noted in the diary for detailed content analysis. Based on recorded interviews, transcription has been made (Linneberg & Korsgaard, 2019). The transcription process remains critical as it is the main element of qualitative research. After transcription, the data has been coded by using NVIVO-12 (Abul, 2019). Automatic coding has been used to deduce the significant themes that emerged from naturalistic data. Based on auto coding, the word frequency report, and tree map has been estimated to insight the key findings based on respondent's interviews.

### **3. Results & Discussion**

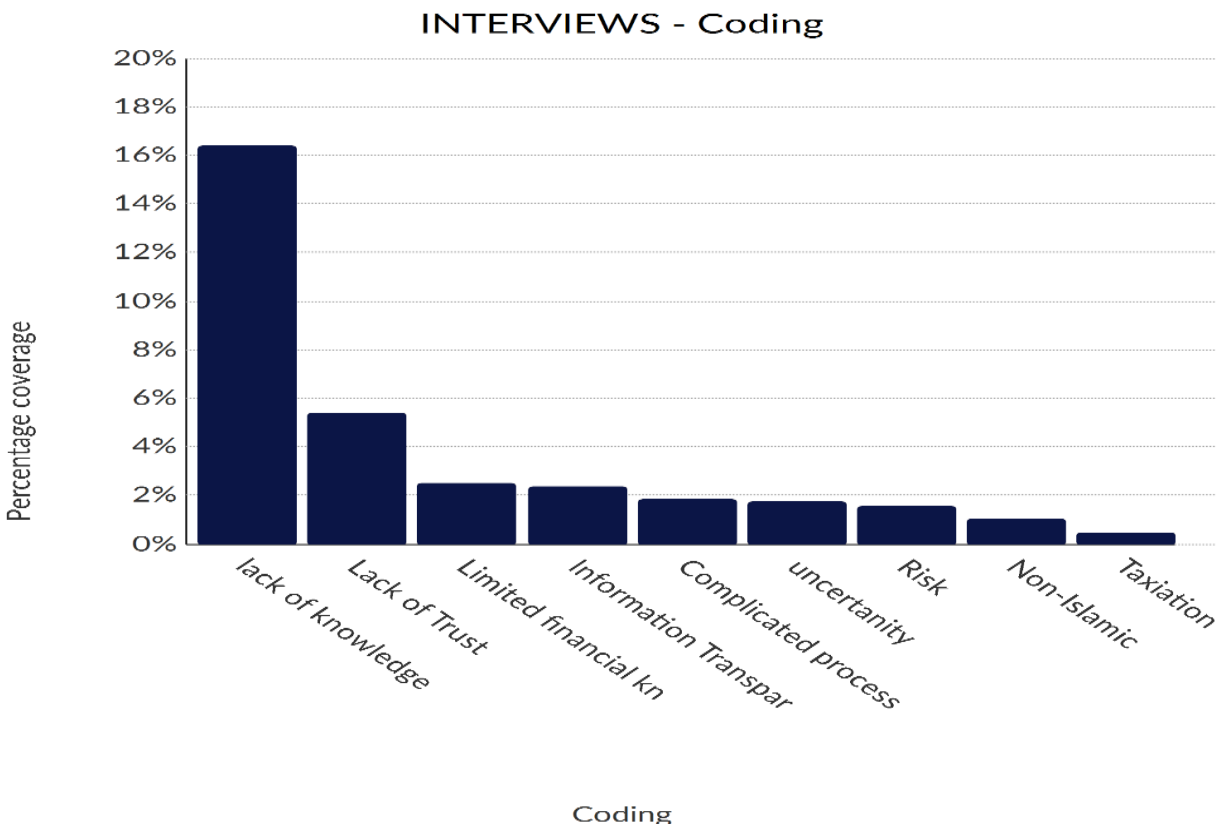
The following section provides the main results and discussion. The qualitative interviews have been transcribed and analyzed with the help of the qualitative software NVIVO-12. The data collected through interviews remain robust to get an in-depth insight into the phenomena under investigation. The respondents who have participated in interviews have the financial capacity to invest in stocks; however, they still remain reluctant to participate in stock market investments in Pakistan. The data analysis reveals different themes which guide the reasons why households in the context of Pakistan remain diffident to participate in stock market investments and prefer the conventional ways of savings and investment. The following section provides the results estimated through NVIVO-12 based on interviews conducted to achieve the study's objectives.





financial literacy and financial inclusion remains high, stock market participation remains high. However, in the context of Pakistan, the level of financial literacy and financial inclusion is considerably low as compared to other developing and developed countries (Naveed, Sohail, Abdin, Awais & Batool, 2020). Therefore, why do households in the context of Pakistan remain reluctant to participate in the stock market participation? Accordingly, the third most frequent word which remains central to the discussion of participants remains complexity. The respondents consider that the procedure to start stock trading is quite complex and they are not able to get simplified information on how to get started with stock investment (Muhammad, Atia & Shoaib, 2022). The procedural complexity and ease of business remain central to attracting prospective investors. However, in the context of Pakistan, the awareness and procedure to start stock trading is quite complex. In this regard, the government can take initiatives to simplify the procedure to boost household stock market participation.

Word clouds only visualize the word frequency, however, do not reflect the dominant construct. Therefore, to assess the most frequent construct that emerged in qualitative data, a word frequency graph has been assessed.



**Figure 2:** Word Frequency Graph

Based on the graphical representation of qualitative data, it has been asserted that in the context of Pakistan, lack of knowledge remains the central reason why households do not participate in stock market investments. The lack of knowledge also interchangeably termed as financial literacy in literature based on consumer finance remains one of the main reasons for low financial inclusion and lower stock market participation. The second major reason why households do not show their willingness toward stock market participation is a lack of trust. The respondents have shown their concern about brokers' and companies' transparency. Transparency of information remains central to creating the element of trust in financial markets. Trust remains the central element in all economic contracts, most of these contracts are earned on the basis of mutual trust. The participants who have participated in this study explicitly added the following:

*“Additionally, I do not trust companies and their disclosure. Besides that I do not have trust in companies that offer their share, I do have reservations due to the Islamic perspective as most Islamic scholars consider stock market investments as prohibited. Fraud and trust are the main elements hindering me from participating in stock market investments.”*

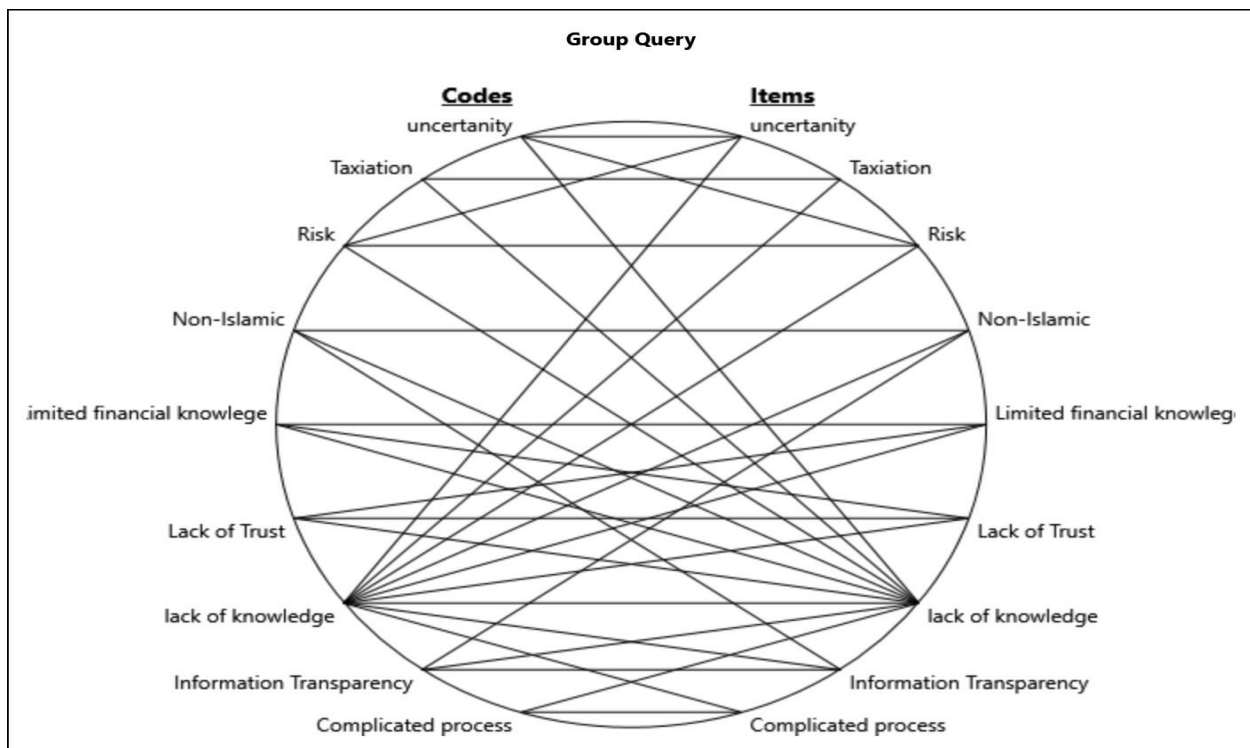
As most of the respondents presume that stock is a tricky game and brokers and companies often mislead individual investors to make suboptimal decisions which result in negative stock returns. Therefore, due to trust deficit most of the households do not presume stock market investments as the safe venture to get started.

The third most frequent reason why participants remain reluctant to participate in stock market investments is emerged because of a lack of financial knowledge. According to respondents, they do not possess sufficient financial knowledge to understand the underlying mechanism of stock market investments. Therefore, due to limited financial understanding, they do not prefer to start stock market investments. Besides, limited financial knowledge, the participants have raised their concerns regarding the transparency of information being disclosed by companies. The participants have explicitly stated that companies listed on the stock exchange often disclose transparent financial information. Investors, particularly, individual investors, rely on available financial information to guide their investment decision and make future returns predictions. The information disclosed by companies through financial reports remains subject to earning management practices, which mislead the investor and result in suboptimal economic choices. The literature based on financial information confirms this notion and provides evidence that financial information remains subject to earning management and window-dressing practices.

Likewise, the uncertainty and complicated process of stock market investments remains the central concern of participants who have participated in this study. One of the potential reasons for household low stock market participation is the element of uncertainty. Stock market investments are subject to uncertainty rather than estimated risk (Hon, Moslehpour & Woo, 2021). Although contemporary finance theories are based on risk while behavioral finance insight into the assumption of uncertainty while explaining the process of financial decision-making, rational

individuals can be expected to behave differently when faced with uncertainty as compared to risk (Muhammad, Atia & Shoaib, 2022; ). Decisively, uncertainty confounds the process of financial decision-making. Assessing the probabilities of outcomes is generally difficult, and people may be unaware of all the possible outcomes. Besides, these dominant and major themes, respondents have also quoted risk and taxation issues as one of their reasons for not participating in stock market investments. The stock returns are subject to double taxation and though stocks offer higher returns, they are subject to offering higher risk. The higher intensity of risk discourages risk-averse households to participate in stock market investments.

Group query is another visual representation of the qualitative data collected through interviews. The group query report as compared to the word frequency graph and word cloud offers more descriptive insight into the key themes that emerged in qualitative data.



**Figure 3:** Group Query

Based on manual coding, Figure 3 visualizes the dominant themes that emerged in discourse being transcribed and analyzed with the help of NVIVO-12. Categorically, in response to the central question of the study which was to ask each respondent why they remain reluctant to participate in stock market investments and what they perceived about stock trading. The major themes emerged as; uncertainty, risk, taxation, limited financial knowledge, lack of trust, lack of information, lack of trust, lack of information transparency, complicated procedures, and Islamic perspective remain dominant. Uncertainty and risk are the inevitable aspects of stock market investments. The literature based on stock market investments posits that though stock market

offers higher returns at the cost of higher risk. Future stock returns cannot be effectively predicted based on fundamental and technical analysis and most often the investors face negative deviation which results in economic losses. Most of the themes which emerged based on data analysis do have a presence in the current literature which remain devoted to addressing the reasons for household's lower stock market participation however, current data provide a novel theme that remains overlooked in past literature (Tang, Rasool, Sindhu, Naveed & Babar, 2023). The Islamic belief of households also influences their willingness to participate in stock market investments. Most of the respondents have explicitly concluded that their main resistance toward stock market trading is due to its prohibited nature by Islamic values. The respondents as addressed in the following passage explicitly raised their concern about the legitimacy of stock trading in the context of Islamic principles.

*“For me, the stock market investments are just like biting and also complicated thing full of uncertainty and risk. While I am also confused that it is not accorded with Islamic thoughts is it fair according to Islamic scholars to invest in the stock market? Accordingly, from a religious point of view and according to Islamic laws and rules, stock investment is just like biting which hinders me to invest in stocks and it also increases my fear to take a risk and facing uncertainty while it has prohibited by Islamic laws”.*

The data estimation based on NVIVO offers various visual tools to understand and deduce meaningful insight from emerged discourse. Word tree is another effective way to explore the characteristics of the particular text search query to understand the important linkages that emerged in discourse. The different text search query estimations have been run to determine how the discourse remains interlinked with each other. The various interlinked discussion of different respondents has been examined with the help of a text search query to understand the main discourse that emerged and its underlying meanings.



The major interlinked discussion which emerged while the word investment has been estimated as a text search query. The discussion relevant to emerged while the word investment is being discussed in visualize in figure 3. Besides, investment in the word search query of information, Islamic, risk, knowledge, and the stock has been estimated to determine the discourse that emerged in response to these constructs.

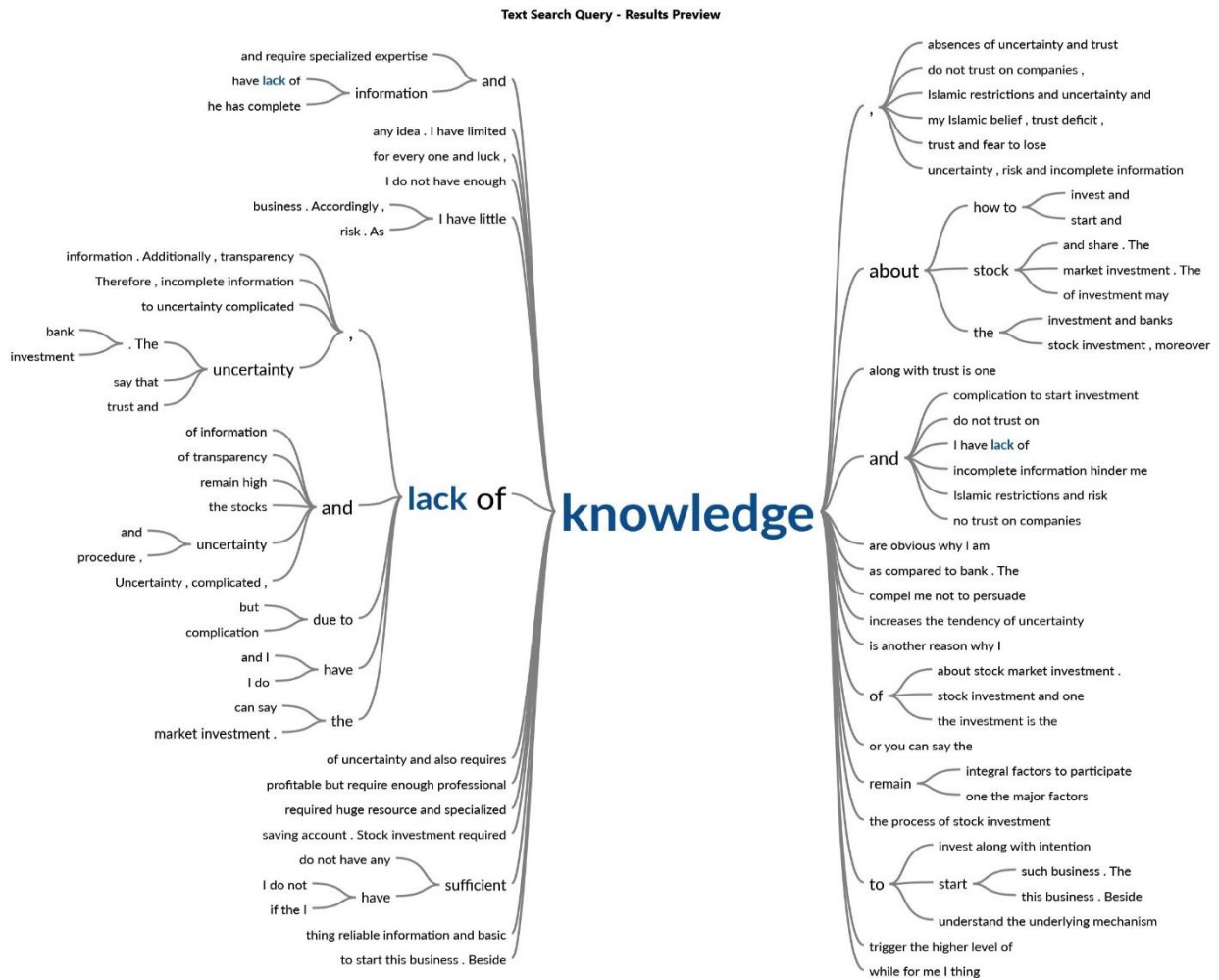


Figure 5: Word Tree- Knowledge

Text Search Query - Results Preview

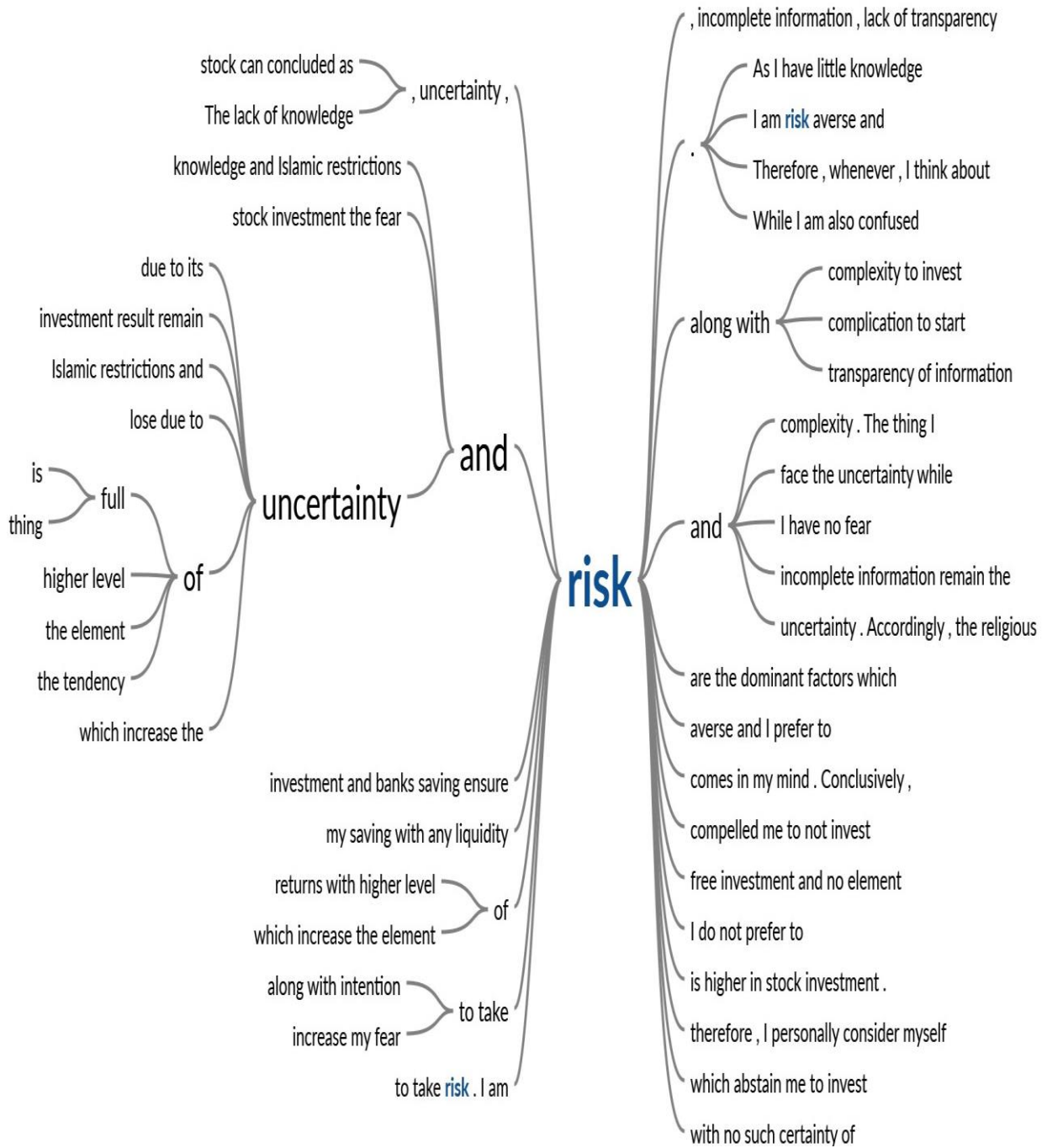


Figure 6: Word Tree- Risk



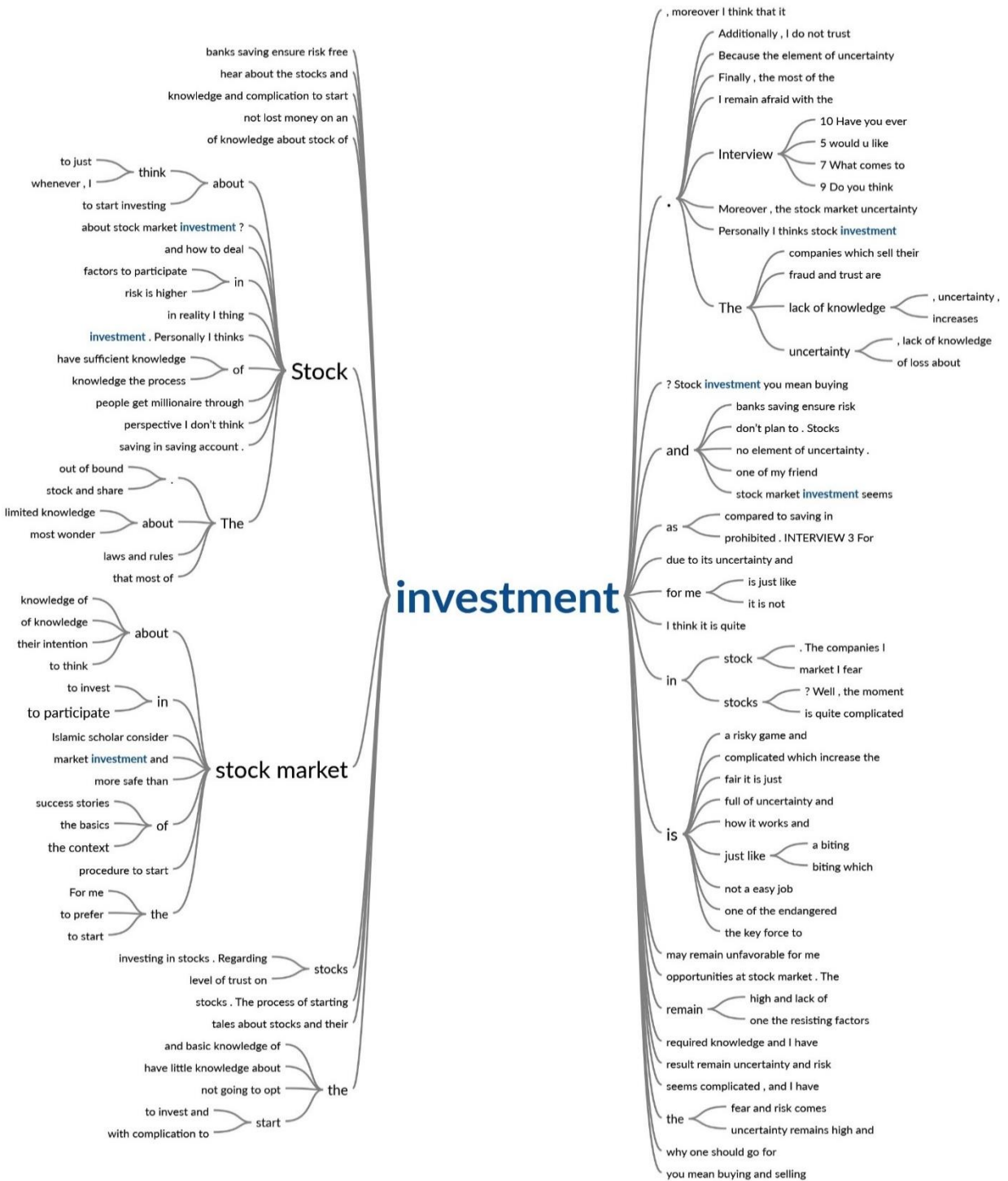


Figure 7: Word Tree- Investment

Text Search Query - Results Preview

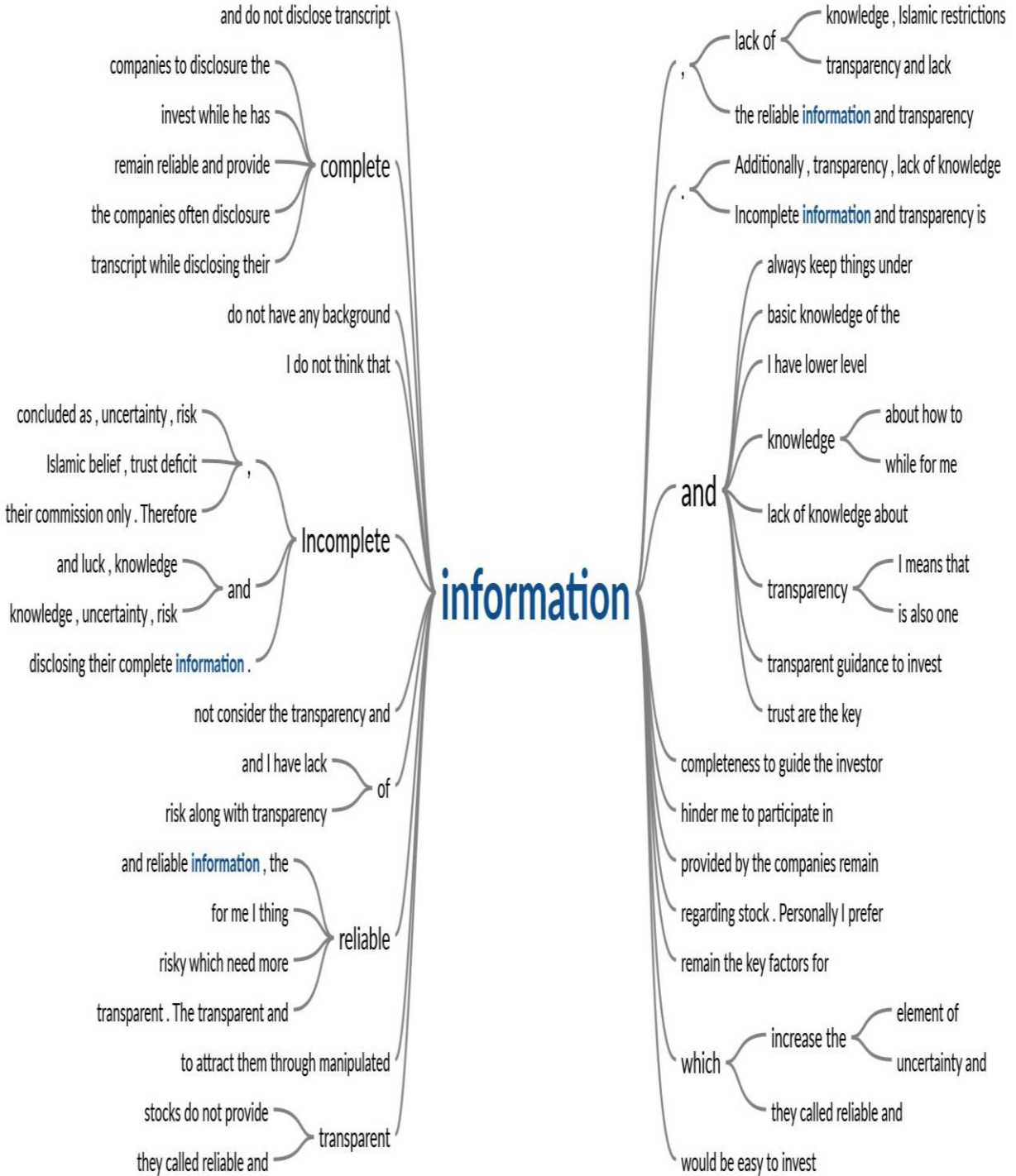
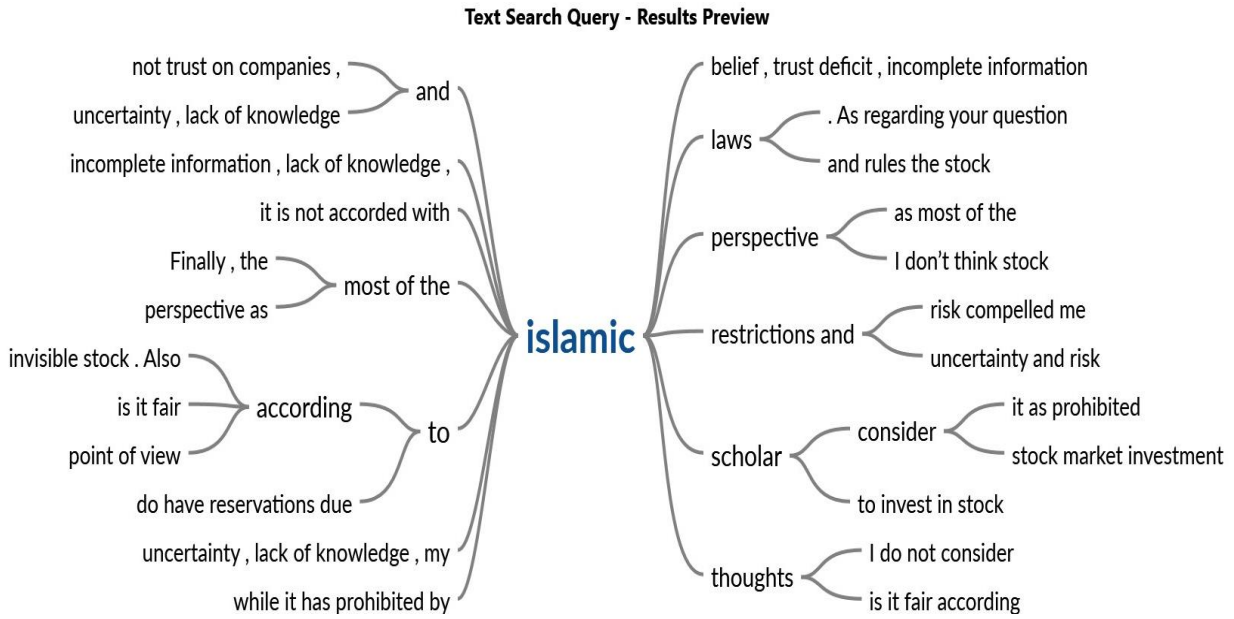
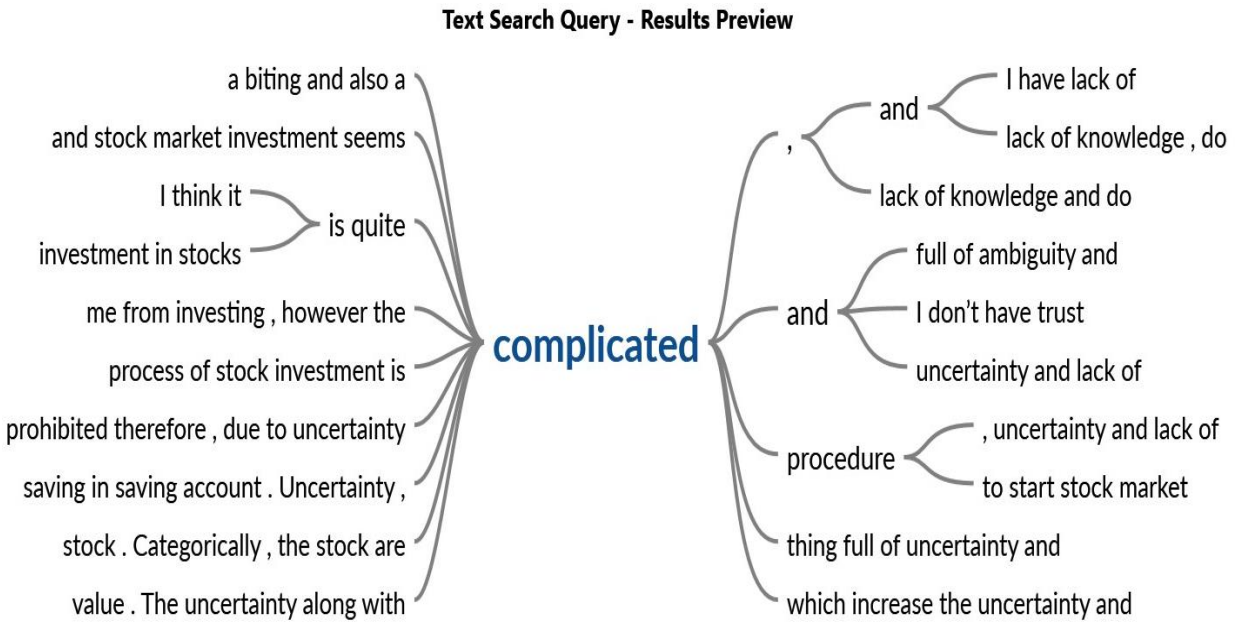


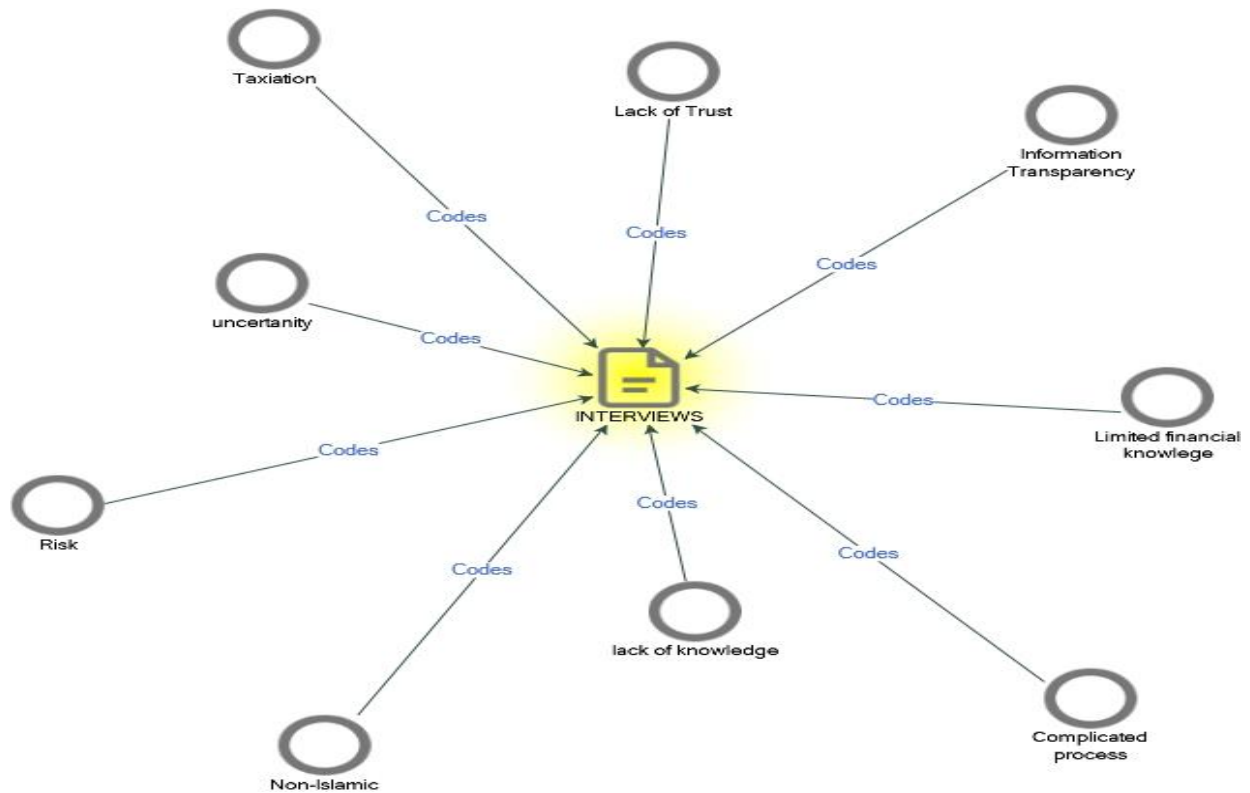
Figure 8: Word Tree- Information



**Figure 9:** Word Tree- Islamic belief



**Figure 10:** Word Tree- Complicated process



**Figure 11:** Qualitative Model of the study

Based on qualitative data and using an inductive strategy the qualitative model of the study has been inferred. The model of the study has emerged based on manual and automatic coding. The coding process remains central after the transcription process of interviews. The transcribed data has been examined using various tools and techniques to gain an in-depth understanding of the phenomena under consideration. As the question remains unstructured and open-ended, therefore, a naturalistic perceived view of the respondents has been gained to determine why households in the context of Pakistan remain reluctant to participate in stock market trading. Based on the study's qualitative model, the following constructs or reasons remain a central source of resistance that refrained from higher stock market participation in Pakistan.

**Lack of trust:** The majority of economic contracts are earned on the basis of trust. Trust remains the central principle to attract the prospective investor and make the transaction complete. However, in Pakistan, most households reflect a trust deficit in listed companies on the stock exchange and brokers who function as intermediaries between investors and firms. Therefore, most investors have explicitly argued about trust as one of the prime reasons not to participate in stock market trading. For instance, one of the respondents argued as shown in the following:

*“The companies I think being listed on stock are not transparent and reliable to trust as compared to banks therefore, I like to invest in ventures which remain reliable and transparent. Transparent and reliable information and reliable information and transparency mean that companies often do not disclose the underlying value of their true asset and mislead the investor to attract them*

*through manipulated information which they called reliable and transparent information. Additionally, transparency and lack of knowledge trigger the higher level of uncertainty and risk which abstain me to invest in stocks”.*

**Uncertainty:** Stock market investments are riskier with higher returns. Stock market investments are subject to uncertainty rather than estimated risk. Hence, the investor participating in stock trading demand higher return due to the element of high uncertainty. Based on the model of the study, one of the major themes that emerged based on qualitative data remains uncertainty. The respondents who raised their concern about uncertain future outcomes annexed with stock trading remain the fundamental aspect of why they do not prefer to invest in stocks. For example, one of the respondents has proclaimed the element of uncertainty as shown in the following:

*“Moreover, the stock market uncertainty and tax structure remain high as compared to saving in a saving account. Uncertainty, complicated, lack of knowledge, do not trust on companies, remain the prime reason why I remain reluctant to participate in stock market investments. The uncertainty of loss of the future earning remains uncertain which abstain me from investing; however, the complicated procedure, uncertainty, and lack of knowledge are obvious why I am not going to opt the investment opportunities in the stock market. The uncertainty as compared to saving account remain high as in banks, we put our saving remain safe and we can withdraw at any time however, in the context of stock market investments the uncertainty remains high and we remain unable to withdraw our money without losing its value”.*

**Risk:** Besides uncertainty, another mutually exclusive term risk remains the central reason why participants who have participated in this study remain reluctant to participate in stock market trading. The element of risk is central to economic decision-making, and investors always pursue the expectation of wealth maximization while making financial choices. Most of the respondents do have reservations about the intensity of higher risk involved in stock market trading. The risky nature of stock market trading remains one of the main reasons why households in Pakistan remain reluctant to participate in stock market investments. For example, one of the respondents raised their concern about risk as shown in the following:

*“Moreover, I do have resources, but I prefer to keep my saving in banking as the stock market is risky and uncertainty is the chief element for me to remain out of this business. I think that banks are safer than stock market investments due to their uncertainty and risk. As I have little knowledge about investment and banks saving ensures risk-free investment and no element of uncertainty”.*

*“Moreover, I do have resources, but I prefer to keep my saving in banking as the stock market is risky and uncertainty is the chief element for me to remain out of this business. I think that banks are safer than stock market investments due to their uncertainty and risk. As I have little knowledge about investment and banks saving ensures risk-free investment and no element of uncertainty”.*

**Information transparency:** The lack of information transparency also emerged as one of the major reasons why households have a trust deficit and do not consider stock investment reliable in

Pakistan. The stakeholder, particularly individual investors, relies on financial disclosure to make investment decisions. Therefore, transparency and reliability of financial information are required to make sound and informed economic choices. The literature also confirms this notion and holds the view that most of the information being disclosed remains subject to window dressing and earning management practices that mislead stakeholders and result in suboptimal economic choices. The respondents have explicitly raised their concerns regarding the reliability and validity of information released by companies in their annual reports. Additionally, the households have raised their concern regarding the credibility of a broker who remains an intermediary between investors and companies. For example, one of the respondents has quoted this issue as shown in the following:

*“The companies which sell their stocks do not provide transparent information and always keep things under the element of uncertainty and hide the things from the public. Therefore, I do not think that the information provided by the companies remains reliable and provides complete information, increasing the element of risk and uncertainty. Moreover, one of my friends told me that companies remain not to transcript while disclosing their complete information. Incomplete information and transparency are also one of the factors as the broker does not consider the transparency and information completeness to guide investors, they remain concerned with their commission only”.*

**Limited financial knowledge:** Based on qualitative data most of the participants have argued that one of the potential reasons why they remain unwilling to participate in stock investment is due to their low level of financial literacy. The literature also posits that individual numeracy skill and financial knowledge affect their financial choices. The literacy level of Pakistan is lower than developed countries, which is reflected in the ratio of total population participation in stock trading. Only 220000 individual households participate in Pakistan Stock Exchange and mostly institutional investors dominate the stock market. The lower financial knowledge remains one of the oblivious reasons endorsed by participants and remains the dominant theme. The respondents explicitly state this reason as shown in the following:

*“Well, I have sufficient funds to invest but due to lack of knowledge and complication to start investing in the stock market, I fear to invest in stock market investments. The uncertainty of loss of the future earning remains uncertain which abstain me from investing; however, the complicated procedure, uncertainty, and lack of knowledge are obvious why I am not going to opt the investment opportunities in the stock market. The uncertainty along with the complicated procedure to start stock market investments remain high and lack of knowledge is another reason why I should not prefer the stock market investments”.*

**Complicated Process:** The participants who have participated in this study have this notion that the process to get started with stock market investments in Pakistan is much more complicated. Usually, most of the stock trading is done through brokers. The word brokers themselves remains confounding for participants and they do not prefer to sell and buy stock through brokers. The

respondents have also argued that paperwork and other requirements remain subjective in nature, and they remain unable to understand how to get started with stock investment safely. The ease of business remains a central element to get the positive attention of prospective investors. Therefore, regulations and procedures regarding stock market investments should be made convenient and online to boost the households' trust to participate in stock market trading (Yamori & Ueyama, 2022). The same stance is argued by participants in their interviews. For example, one of the respondents raised this reason as shown in the following:

*“The uncertainty and complicated procedure to start stock market investments remain high and lack of knowledge is another reason I should not prefer the stock market investments. Additionally, I do not trust companies and their disclosure. Besides, knowledge of the process of stock investment is complicated which increases the uncertainty and risk therefore, I personally consider myself afraid of investing in stocks”.*

**Non-Islamic:** The theme that remains novel in Pakistan's context is their presumption about the non-Islamic nature of stock market investments. Most of the respondents have raised this concern that they remain confused about whether stock investment is allowed as per Islamic jurisprudence or not. The respondents have also proclaimed that they consider stock investing like gambling. This misconception also leads to discouraging most households to participate in stock market investments. The respondents have explicitly argued about this reason as one of the potential reasons for their lower stock market participation. For example, some of the respondents have argued about this issue as shown in the following:

*“For me, stock market investments are just like gambling and also a complicated thing full of uncertainty and risk. While I am also confused that it is not accorded with Islamic thoughts is it fair, according to Islamic scholars to invest in the stock market? Accordingly, from the religious point of view according to Islamic laws and rules, stock investment is just like gambling which hinders me to invest in stocks and it also increases my fear to take risks and face uncertainty while it has prohibited by Islamic laws”.*

**Taxation:** Some respondents with a business studies background also argued that taxation remains their prime concern when they think about stock market investments. The stock earning is subject to double taxation, mitigating their motivation to invest in stocks. Additionally, the dividend policy of listed companies on stocks remains unclear and they do not offer dividends regularly. Therefore, investors who are willing to make long-term investments remain less concerned with stock trading. The reason is being raised by certain respondents as shown in the following:

*“Moreover, the stock market uncertainty and tax structure remain high as compared to saving in a saving account”.*

#### 4. Conclusion

The main objective of this study is to determine why households in Pakistan are reluctant to participate in stock market investments. According to the Central Depository Company (CDC) Pakistan, there are only 220,000 individual investors in the country, and the reasons for this low participation rate are unknown. This study explores the key reasons respondents are reluctant to participate in stock market trading based on their perceived thoughts. Although the stock market offers higher returns, most households prefer to invest their savings in other conventional business ventures rather than stocks (Naveed, Sindhu, & Ali, 2020). To fulfill our objective, this study focuses on respondents who were selected primarily from universities and teaching professions so that they have the financial ability to invest but choose not to do so.

An inductive approach was used to determine the major reasons why households in Pakistan remain unwilling to trade in the stock market. The study's objective was achieved by conducting open-ended, unstructured interviews, which are ideal for exploring and offering novel insight regarding emerging phenomena. Formal consent was obtained from the interviewees, and the aim of the study was shared with them before the interviews began. The interviews were carefully transcribed, and notes were taken to gain insight into the emerging themes. The data were analyzed by using qualitative software NVIVO-12, and the emerging themes were pointed out and discussed in detail based on word frequency reports, word clouds, word trees, and the qualitative model of the study.

The study found that the major reasons influencing participants' willingness to invest in the stock market were fundamental and basic. The most significant reasons include uncertainty, lack of trust, limited financial knowledge, risk, complicated processes, issues related to information transparency, non-Islamic views about stock investment, and taxation issues. The participants who took part in the study had the financial ability to invest in stocks, but they remained reluctant to participate due to these emerged themes derived from the data.

The findings of this study are consistent with past studies conducted in various other contextual settings. Uncertainty, which emerged as a dominant theme in our study, has also been examined in past literature. For example, Kochenderfer (2015) posits that rational individuals can be expected to behave differently when faced with uncertainty as compared to risk. Stock market investments are subject to uncertainty rather than estimated risk. Hence, investors who participate in stock trading demand higher returns due to the element of high uncertainty. Similarly, limited financial knowledge has also been linked to a lower level of household participation in the stock market. However, the novel themes of this study were the religious beliefs that have been overlooked by past studies while investigating the phenomenon of household participation in the stock market. The respondents of the study have raised this reason as a central element of their reluctance regarding stock market participation.

This study has practical implications for regulators and firms listed on the Pakistan Stock Exchange to increase household market participation by taking different initiatives. Firms can



restore households' trust by offering specialized consulting services to raise awareness about stock market investments. The Securities and Exchange Commission of Pakistan (SECP) recently launched a financial literacy program for public awareness to uplift their financial knowledge. The same initiatives should be taken by academia in collaboration with firms listed on PSX to enhance students' financial literacy to become prospective future stock market investors. The integrated approach taken by all stakeholders (regulators, academia, and listed firms) may be robust to boost household participation in the Pakistan stock market. Besides boosting stock market participation, the integrated initiatives may also uplift the household financial inclusion and financial literacy of the public in Pakistan. This qualitative study provides valuable insights into the factors influencing low stock market participation in Pakistan, but future studies can use a quantitative approach which would help to validate these findings by providing statistical evidence. A survey-based approach could be used to collect data from a representative sample of the population to assess the prevalence and significance of the factors identified in this study.

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