Analysis of Market Manipulation from the Perspective of Behavioral Finance

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Abstract. Behavioral finance is a hot issue in the field of international finance in recent years. It draws on the research results of psychology, behavioral science and sociology, and systematically studies the investment decision-making behavior of investors under irrational assumptions and its impact on asset pricing. From the perspective of behavioral finance, this paper discusses how investors are influenced by information in the market manipulation phenomenon to make irrational decisions, and the market manipulation behavior artificially distorts the normal price of the securities market, making the price and value of the securities seriously deviate, resulting in false supply and demand, misleading the flow of funds, can not truly reflect the relationship between market supply and demand, and damage the interests of investors. Therefore, strengthening the supervision of stock price manipulation and formulating relevant regulatory measures are of great significance for controlling risks, enhancing market effectiveness, and making the securities market healthy and smooth.

Introduction

The basic premise of modern financial theory is that investment behavior is rational and market-effective. Professional investors or information traders with information advantages can quickly observe, discover, analyze, lock, and use short-term mispricing of capital markets in a market environment with low transaction costs, and then engage in arbitrage trading. However, behavioral finance theory poses direct doubts and challenges to the cornerstone of traditional financial theory—investor rationality and market effectiveness. Since the 1990s, financial theory has gradually changed from the quantitative analysis of financial commodity prices, stock dividends, and income issues to the development of models based on financial market behavior psychology. The field of behavioral finance research is booming. The financial market has witnessed many market anomalies that traditional financial models do not have sharply captured and profoundly analyzed. That is, when economic agents choose and judge, Not only do they not have a fully adequate information base, but they do not have a perfect rational behavioral psychology. Behavioral finance is the key to explain the essential effects of market participants' perceptions and emotions on market volatility, asset price anomalies, and speculative bubbles.

Behavioral finance theory believes that the definition of rational people is unrealistic. It shifts the analytical perspective from price and information to market participants' behavior, emphasizes analyzing financial behavior from psychological dimensions, Combining the theoretical and empirical findings of applied cognitive psychology and financial economics, it explains the prejudice, decision-making and behavior of financial market participants that are not based on rationality. Market upheaval and excessive volatility are the excessive reaction of irrational investors to the existing information flow. The market is full of various positive or bad information. Optimistic or pessimistic investors will intervene in the market through their trading behavior to promote the rise and fall of financial commodity trading prices.

Specific models in behavioral finance theory can be effectively applied to the analysis of problems related to market manipulation. Take the chaotic principle in behavioral finance theory as an
example—all information in the capital market is meaningful, but it is impossible to use linear trajectory description or predict the effect of specific information on the transaction price of financial commodity market according to univariate. The value of information is not a question of whether it exists, but whether it can and how it is discovered and explained. The dynamic relationship between information and price is random in form, but essentially contains complex but certain patterns or sets of solutions. In practice, it is completely impossible to distinguish the role of distorted information and other information units in the price formation mechanism in the market information system. It is also impossible to accurately quantify the specific influence of the information pointed to by capital market behavior such as specific market manipulation or the information related to the relationship between supply and demand of financial products. The principle of chaos is especially important for explaining the market manipulation behavior centered on information control and not directly controlling the economic mechanism and behavioral characteristics of financial commodities.

Market Manipulation Case Analysis

Market manipulation behavior refers to the principle that individuals or institutions deviate from the market's free competition and supply and demand relationship, artificially manipulate the price of securities, to induce others to participate in securities transactions for personal gains. According to the classification of the China Securities Regulatory Commission, there are currently eight manipulations on the market, namely continuous transaction manipulation, agreed transaction manipulation, sell-out manipulation, confusing trading manipulation, “grab hat” trading manipulation, false declaration manipulation, price or value manipulation at a specific time, tail market trading manipulation. This article analyzes the case of a “grab hat” type transaction manipulation.

“Grab hat” type transaction manipulation refers to securities companies, securities advisory institutions, professional intermediaries and their staff who buy or sell relevant securities, and publicly make evaluations, forecasts or investment suggestions for the securities or their issuers and listed companies so that they can obtain economic benefits through expected market volatility. This emphasizes the particularity of the trading entity—with the corresponding ability to recommend shares (market influence). In fact, according to relevant cases, the focus of the China Securities Regulatory Commission is not only on the employment status of such personnel, but also on its market influence, that is, the influence on investor trading decisions—Subjects such as online reds and self-media commentators should also meet the main requirements of such behavior.

Liao Yingqiang, male, born in Tianjin on January 12, 1970, is a well-known financial program host, financial critic, visiting professor at Shanghai Jiao Tong University and Shanghai Finance College. From February 2012 to April 2016, Liao Yingqiang served as guest host on the Shanghai Radio and Television First Financial Channel’s "Talking about Stocks" program. As the first financial and economic securities brand program, "Talking about Stocks" has always maintained a high popularity and its ratings are stable. Liao Yingqiang also began to serve as the guest of the first financial channel's weekly broadcast program "Talking about the Essence of the Stock—presented by Ying Qiang " in September 2014. The ratings of the above two programs in Shanghai are higher than the average ratings of all channel financial programs in Shanghai at the same time. Liao Yingqiang has accumulated considerable popularity and influence by accumulating fame and audience on high-rated securities brand programs on TV stations, supplemented by various forms of Internet promotion and promotion, opening training seminars, etc., he has get considerable visibility and influence.

From March to November 2015, Liao Yingqiang controlled 13 securities accounts such as himself and “Zhang Pingping”. The “Liao Yingqiang” account was controlled by himself, securities accounts such as “Chai Mouyu”, “Wang Mo Nii”, “Zhangmou”, “Zhang Moping”, “Hannou”, “Ji Mouyan”, “Xu Mouqin”, “Liu mouzhong”, “Chai Momei”, “Liao Mojie”, “Jin mou” transaction Liao Yingqiang’s MAC address entrusted to use the stock is highly coincident with the MAC address used by the "Liao
Yingqiang” account. The “Lu mou” account has been using the most used computer transaction MAC address since 2015 for the Liao Yingqiang office computer MAC address.

From January 2015 to December 2015, all the funds of the “Zhang mou” account were from Liao Yingqiang. 84.97% of the “Lu Mo” account was funded by Liao Yingqiang, and 84.73% of the “Liu mouzhong” account was sourced and all flowed out to Liao Yingqiang's spouse Guo Molin; half of the income of "Ji Mouyan" and "Xu Mouqin" account was transferred to Liao Yingqiang's bank account via Zhang mou, and "Ji Mouyan" and "Xu Mouqin" account were entrusted to Liao Yingqiang for the operation.

Liao Yingqiang is the actual controller and general manager of the Shanghai Guxuan Culture Creative Co., Ltd.e and Shanghai Yingqi Culture Communication Co., Ltd. (hereinafter referred to as Yingqi Culture). Zhangmous is the original shareholder of Yingqi Culture; Lumou is the shareholder of the Guxuan culture; Hanmou is the employee of the Guxuan culture; the legal representative of the Guxuan culture is Chai Yingying, the cousin of Liao Yingqiang, Chai Mouyu is the sister of Chai Mouying; A certain beauty is the mother of Liao Yingqiang; Liao Mojie is the brother of Liao Yingqiang; Jinmou is the sister of Liao Mojie's wife. The above-mentioned personnel have a kinship or working relationship with Liao Yingqiang.

From March 2015 to November 2015, Liao Yingqiang used the influence of his well-known securities program host to publish 60 blogs with recommended stock content, with an average of 110,399 hits. In his Weibo, blog ,” Analysis of the stock market at noon " column video he publicly evaluated, recommended "Jia Shi Technology" and other 39 stocks a total of 46 times. Before the recommendation, Liao Yingqiang used the account group controlled by him to buy the relevant stocks, and sold the relevant stocks after the opening of the public recommendation shares in the afternoon or the next day. The illegal income totaled 43,104,773.84 yuan. Some specific examples are listed below:

(1) During the midday break on March 20, 2015, Liao Yingqiang recommended “Xingfa Group” (600141) in his Sina Weibo and blog video, and his controlled account bought this stock before the recommendation. The group had 1,268,233 shares, the purchase amount was 21,327,300.56 yuan, and 1,224,734 shares were sold after the recommendation. The sales amount was 21,800,324.98 yuan, and the profit after deducting the transaction tax was 1,045,573.40 yuan.

(2) During the midday break on April 13, 2015, Liao Yingqiang recommended “Dalian International” (000881) in his Sina Weibo video, and his controlled account bought 1,202,108 shares of “Dalian International” before the recommendation. The purchase amount was 14,163,392.98 yuan, and 1,102,108 shares were sold after the recommendation. The sales amount was 13,916,521.08 yuan, and the profit after deducting the transaction tax was 1,339,421.47 yuan.

(3) During the midday break on May 14th, 2015, Liao Yingqiang recommended “Fresh Environment” (002573) in his Sina Weibo video, and his controlled account bought “Fresh Environment” 1,174,800 shares before recommending shares. The purchase amount is 47,410,670.98 yuan, and 906,100 shares are sold after the recommendation. The selling amount is 39,007,626.20 yuan, and the profit after deducting the transaction tax is 1,907,626.64 yuan.

(4) During the midday break on May 18, 2015, Liao Yingqiang recommended “Shenyang Shares” (002580) in his Sina Weibo video, and bought 663,080 shares of “Shenyang Shares” before the recommendation. The purchase amount was 14,277,433.06 yuan, and 613,080 shares were sold after the recommendation. The selling amount was 13,698,050.70 yuan, and the profit after deducting the transaction tax was 388,680.64 yuan.

(5) During the midday break on May 19, 2015, Liao Yingqiang recommended “Fuchai Power” (600218) in his Sina Weibo video, and his controlled account bought “Fuchai Power” before the recommendation. 463,000 shares, the purchase amount of 7,004,267.61 yuan, the sale of 326,101 shares after the recommendation, the sale amount of 5,440,783.42 yuan, after deducting transaction taxes and fees, profit of 476,832.67 yuan.

(6) During the midday break on May 19, 2015, Liao Yingqiang recommended “Su Changchai A” (000570) in his Sina Weibo video, and his controlled account bought “Su Changchai A” before the
recommendation. "1,113,642 shares, the purchase amount of 12,529,441.10 yuan, after the recommendation of shares sold 907,042 shares, the sale amount of 11,119,048.49 yuan, after deducting transaction taxes and fees, profit of 846,415.15 yuan.

(7) During the midday break on May 22, 2015, Liao Yingqiang recommended “Tianfu Energy” (600509) in his Sina Weibo video, and his controlled account bought “Tianfu Energy” before the recommendation 1,135,600 shares, the purchase amount of 15,091,999.00 yuan. After the recommendation, the company sold 1,135,600 shares, the selling amount was 16,838,156.00 yuan, and the profit after deducting the transaction tax was 1,633,528.38 yuan.

(8) During the midday break on May 27, 2015, Liao Yingqiang recommended “Petroleum Jichai” (000617) in his Sina micro video. The account he controlled bought 347,489 shares of “Petroleum Jichai” before the recommendation. The purchase amount was 6,195,597.02 yuan, after selling the shares, sold 347,489 shares, the selling amount was 6,894,920.20 yuan, and the profit after deducting the transaction tax was 653,156.71 yuan.

(9) During the lunch break at noon on June 2, 2015, Liao Yingqiang recommended “Yu Development” (000514) in his Sina Weibo video, and his controlled account bought 1,331,879 shares before the recommendation. The purchase amount was 15,222,898.33 yuan, and 1,231,879 shares were sold after the recommendation. The selling amount was 15,412,189.12 yuan, and the profit after deducting the transaction tax was 1,231,797.11 yuan.

(10) During the lunch break at noon on June 8, 2015, Liao Yingqiang recommended “Fudan Fuhua” (600624) in his Sina Weibo video, and his controlled account bought “Fudan Fuhua” before the recommendation 1,025,907 shares, the purchase amount is 25,731,894.90 yuan, 584,492 shares are sold after the recommendation, the sales amount is 15,774,834.36 yuan, and the profit after deducting the transaction tax is 595,950.13 yuan.

(11) During the lunch break at noon on June 12, 2015, Liao Yingqiang recommended “Haida Group” (002311) in his Sina Weibo video, and his controlled account bought “Haida Group” before the recommendation. 1,764,823 shares, the purchase amount is 46,595,268.50 yuan, after selling the shares, 1,615,053 shares, the selling amount is 45,315,044.52 yuan, after deducting the transaction tax, the profit is 2,302,404.35 yuan.

In this case, Liao Yingqiang conveys price signals and other information behaviors (rather than pure trading behaviors) to the capital market, and through the transmission of information, it has a market effect on investors participating in specific and related financial commodity transactions, controlling or interfering with the allocation decisions of market capital elements held by investors. This kind of information that conveys false, misleading or conflicting interests to a specific investor group in the capital market, induces investors to engage in relevant financial transactions according to the content pointed out by the information, and make a profit from market fluctuations in market manipulation. There is actually no direct causal relationship between the price fluctuations in the financial commodity market and the change in the transaction price of financial commodity market is that the capital controlled by the investor injects or withdraws the financial commodity transaction in a certain amount of time. Liao Yingqiang's profit is derived from the difference between the opening price before the information transmission and the closing price after the investor's capital allocation causes the market to fluctuate. Liao Yingqiang himself does not control the price of financial commodities through trading behavior, or the strength of trading behavior is not enough to exert a meaningful force on the price of financial commodities. Liao Yingqiang's object of overall control is only the information element. It can only achieve the degree of "impact" on the decision-making and behavior of investors' capital allocation. The fluctuation of the price of financial commodity market can only be expected, rather than "manipulation" with direct control effect.

The following behaviors and psychological elements and content are covered throughout the process: (1) intention. Liao Yingqiang’s purpose is to seek financial transaction profit from the
fluctuation of financial commodity prices after being affected by market information. He opened the position to buy stocks in advance, and then affected other market participants to implement the same operation in the same direction, pushed the relevant stock market prices up, and closed the position after the spread appeared. (2) Behavior. In the information behavior part, Liao Yingqiang constructs the information content that meets the demand of the spread, and uses the media form to transmit the information to other market participants. In the trading activity section, Liao Yingqiang completed the financial commodity opening position in advance. (3) Result. In the information result, the investors affected by the information make trading decisions and behaviors according to the direction indicated by the information. Some investors are affected by psychological factors such as information streaming and herd mentality, and they are eager to purchase related stocks. Among them, information streaming means that people are influenced by other people's choices when making decisions, ignoring information that they already have or can obtain. Shiller (1999) pointed out that people always focus on some hot information and form similar beliefs. At the same time, these beliefs will be further strengthened by people's mutual communication and media propaganda. The herd mentality means that a single investor always acts according to the actions of other similar investors. Buying when others buy, and selling when others sell, This easily leads investors to chase up and down. The irrational behavior of investors creates a systematic deviation between the stock price and the value of the underlying assets. At the same time, professional analysts and other institutional investors in the financial market will effectively use this irrational investor behavior to maximize their own interests. To accelerate or amplify the price bubble, this is the Bo silly theory in investment. Eventually, in the price result, the behavior of investors who was controlled by the influence of the information to buy and sell stocks causes the price of the relevant securities to fluctuate. (4) Interest. Liao Yingqiang completed the financial commodity trading layout in the same period or in advance, and obtained actual economic profits from the price difference that occurred after the information disclosure.

Conclusion

In the real world, the capital market competition mechanism is not always in good quality operation, and market price changes do not always reflect real information or asset base value. Market manipulation not only seriously damages the interests of small and medium-sized investors, destroys the normal market game rules, but also aggravates the stock price fluctuations and amplifies the risk of the stock market. Therefore, strengthens the supervision of stock price manipulation and formulates relevant regulatory measures is of great significance to control risks, enhance market effectiveness, and make the securities market healthy.

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Reference to a chapter in an edited book:


