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Investment Decision; Information Driven and Preference Ordering

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Abstract

Purpose: The study discussed how cost and character of information, investors' appreciation of information and the environment synchronized to influence investors preference ordering. It gives insight to the fact that choice of portfolio in investment is not the privy of capital structure and the classical mean-variance efficient analysis theories that see the decision process to be rational. Cost of information, investor characteristics and the environment cannot be treated in isolation but work in tandem for better investment decision.

Design/methodology/approach: The Information Driven Efficent Portfolio Model alongside review of the literature were used to analyse how investors bundle of portfolio in a capital structure of a firm, as the dependent variable, is influenced by risk/reward, utility satisfaction, information and its cost of the investor as independent variables.

Findings: It is found that there is trade-off between preference ordering (debt and equity) and risk/reward exposure, cost of information as well as information availability of investors in investment decisions. In environments of information asymmetry with uninformed investors in majority, risk is high and preference for debt instrument is equally high.

Practical implications: Preference ordering, a product of the trade-off, establishes an optional capital structure, but not as determined by management. Investors' response to the firm's behaviour promotes the capital structure. Developing the bond market will grow entrepreneurship.

Originality/value: The study has characterized; investors and how informed; information design and cost; utility; and investment environment and how they synchronized in responding to behavior in bundling up capital structure.