THE IMPORTANCE OF ACCOUNTING INFORMATION FOR THE RETAIL INVESTORS

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The importance of financial education in general is recognized across the globe today. It has been proven in practice that a citizen who has basic financial knowledge makes better decisions regarding the management of their own wealth and behaves more responsibly. The paper presents a number of aspects of how basic knowledge in the field of accounting in particular can be useful to a small individual investor, that is, any citizen who manages to save part of their income.

Key words: Accounting; Information; Investor; Decisions; Education.

JEL Classification Codes: M40, M41, A20.

1. INTRODUCTION

In recent decades, factors such as the complexity of economic life in the context of globalization, the recurrent periods of economic-financial crisis, the political crises and the geopolitical, social and environmental issues have determined an increase in the role of economic-financial information, in general, and in particular the role played by information of an accounting nature, in the decision-making process. Accounting has the role of providing internal and external users with information concerning the company's financial position and performance. The accounting information system has evolved considerably under the influence of three factors: (i) the appearance of computer tools that allow to process an enormous amount of data in a very short time, (ii) the large-scale use of the Internet, which made it possible to access financial-accounting reports from anywhere and by any investor, and (iii) the normalization of accounting.

The accounting information system is part of the existing information system within the company, it is subordinated to the decision-making system, while maintaining a certain independence, which is ensured by the existence of its own rules, methods and organizational techniques.

The final product of financial accounting is represented by financial statements. By its very structure, a balance sheet presents the financial position at the beginning of the exercise in parallel with the one at the end, and thus constitutes a basis of accounting information for the following period. Within the company's accounting system, the balance sheet fulfills various functions such as: the function of generalizing accounting data; the activity information function; the predictive function. The predictive function is important in meeting the information needs of current and potential investors because the ability to anticipate is essential when the investor decides to buy, hold or sell a particular asset.

The users of the financial statements are "*existing and potential investors, lenders and* *other creditors"* (IASB, 2010, 2018). The investors are the providers of capital, who bear the greatest risk in a business and are interested in aspects such as the return on investment, the ability of the company to provide dividends, the sustainable development and increase in the value of the enterprise, determining the right time to buy, hold or sell shares, assessing the risks associated with investments and identifying ways to reduce or avoid such risks.

2. INFORMATION VS INDICATORS USED TO BASE THE INVESTMENT DECISION ON

Investors on the capital market can be individuals or legal entities, at an individual or institutional level. In order to achieve a conceptual delimitation, we need to have answers to the questions: how do we define investors, and who are retail investors? Generally speaking, the investor can be defined very simply as "the owner of an asset" (Nasdaq, 2022) while retail investors are "small individual investors who commit capital for their personal account rather than on behalf of another company" (Nasdaq, 2022).

As a rule, retail investors possess small capital and have limited influence on the market if they act individually, but if retail investors follow a certain trend, they are a formidable force and can exert a significant influence on the market financial. Institutional investors make transactions on their own behalf as well as on behalf of their clients. They have large amounts of capital and exercise significant market influence.

Before investing, any investor should go through all the stages of an analysis process. In the theory and practice of stock investing, two major types of analysis can be distinguished: the fundamental one, and the technical one. These two forms are complementary and have the role of giving the investor a picture that is as close as possible to reality as far as the potential of an investment is concerned. Investors using fundamental analysis choose one of the following two strategies:

- Growth investors – follow the future potential of a company. Few companies are profitable from the beginning of their activity, and these investors pursue the company's potential for growth and profit.
- Value investors – have in mind that the price of the share is a fair one considering the company's situation.

Currently, the sources of information available to investors are numerous, and also very diverse: the financial statements of the company listed on the stock exchange; the audit reports; the broker's website/application, which provides indicators calculated for each listed company; the public documents of the investment fund; the specialized financial analysis websites/applications that offer free or paid detailed analyses concerning the company; statistical data; the financial press.

Thanks to developments in IT&C technology, these sources of information are available to anyone, just a click away.

The process of globalization and the movement of capital have led to the need to achieve accounting normalization. In the normalization process, important steps were taken to harmonize the presentation of synthesis documents, accounting methods and terminology, precisely to facilitate the access of information users to these reports. If we consider the path of accounting information, accounting rules regulate both its production and dissemination in the form of financial statements. Accounting rules can be accepted voluntarily or they can be imposed, and mandatory acceptance is ensured by issuing legislative texts. Accounting rules that are imposed in a mandatory manner by a legal rule are called accounting regulations.

There are quite numerous options for investing in stocks: investors can buy stocks directly through a broker or invest in ETFs and mutual funds, etc.

In making decisions, investors rely on information and indicators. It is necessary to draw a clear distinction between the notions of information and indicators. A piece of information reflects a certain aspect related to a phenomenon in the field of reality, while an indicator is the result of a mathematical calculation.

Indicators contribute to a decision-maker's assessing a situation, therefore the values of the calculated indicators are important for the decision-maker only in relation to his/her objectives. Indicators can be presented both in absolute values (in monetary units or in physical units), and in the form of percentages. We must bear in mind, on the one hand, the fact that an indicator can be interpreted differently by the users, and on the other hand, the fact that no indicator reflects all the sides and scenarios of a company's performance, as it reflects only a part of reality.

Classic performance measurement indicators have the disadvantage of providing information about the historical performance achieved by the enterprise. These indicators do not take into account the cost of invested capital, as they only highlight the results of its use. As a result, if we limit ourselves to using classic indicators, we can come across companies that obtain profit while failing to create value for shareholders, and consuming the existing one. Another disadvantage of classic indicators is their failing to include risk in their construction: they are unable to evaluate and track the risk associated with the company's activity.

Modern performance measurement indicators take into account the concept of creating value, since it is considered that the enterprise creates value when it ensures the remuneration of the capital at a rate of return that exceeds its cost. In the last decades, several indicators have appeared in economic theory and practice that measure the value created by the company during a financial exercise compared to a reference period, such as: Economic Value Added, Market Value Added, Cash Value Added, Cash Flow Return on Investment. However, given the fct they were built in an attempt to eliminate the shortcomings of classic indicators, modern indicators have, in turn, a number of limits.

Using modern indicators to assess performance does not involve giving up classic indicators.

With the emergence and success of FinTech applications that allow the purchase of shares, ETFs, precious metals, etc., the capital market has become accessible to anyone possessing a small amount of money who wants to invest. These applications can be easily installed on the mobile phone, and the registration procedure is simple and fast. The level of commissions is getting lower and lower, or even null, an aspect that has attracted a larger number of users. In this context, in recent years there has been an important increase in the number of individual investors. „A new generation of younger retail investors are purchasing equities with the intention of becoming long-term market participants" (BNY Mellon Wealth Management, 2021).

The following question naturally arises: to what extent is accounting information still relevant for retail investors?

A number of authors have highlighted the decrease in the importance that retail investors have attached to accounting information in recent years (Chaudhry & Sam, 2018; Blankespoor et all, 2018). Other studies on the investment behaviour of retail investors have revealed that "ESG disclosure is irrelevant to retail investors' portfolio reallocation decisions". (Moss et al., 2020).

In the spring of 2022, retail investors bought an average of $1.3 billion in stocks daily, in spite of the fact that returns on retail investments are at record lows (Reuters).

A study published by BNY Mellon (August 2021) showed that 22% of new investors were under 30 years of age, up from 6% before 2020, most new accounts were under $500 and 90% of new retail investors made fewer than three transactions per month. Therefore, retail investors are increasingly younger, investing small amounts and, in a majority, trading seldom. The same study shows that "new, young investors favor friends, family and social media for investment information".

Social trading platforms give users the opportunity to benefit from the experience and knowledge of experienced users. Copy trading is an innovative concept and a way whereby an investor automatically copies the trading actions of another investor. The terms *social trading* and *copy trading* are sometimes used as synonyms, but this is a wrong use. Copy trading is a form of social trading, while social trading does not necessarily mean copy trading (https://www.daytrading.com/social-trading). *Mirror trading* is a strategy used especially in forex trading, which differs from copy trading in that a specific strategy is copied rather than a specific trader.

Some of the most common mistakes that investors make in the stock market are:

- lack of information concerning the return rate of the investments made;
- lack of investment diversification – diversification ensures the reduction of risks;
- payment of excessive commissions and fees; brokers' commissions and fees can significantly diminish the earnings of individual investors. In recent years, with the emergence of fintech brokers, commissions have dropped significantly;
- failing to define clear investment objectives;
- investing larger amounts than those that can be dispensed with in the long term;
- conducting transactions that require the payment of high fees and commissions.

So, a documented investor who carefully analyzes the costs associated with trading financial instruments has a higher chance of success.

Table 1 shows some of the indicators most largely used by stock investors to form the basis for their investment decision. It can be noted that the data used to determine these indicators come from the financial statements, which proves the relevance of accounting information for investors.

Table 1. Some key indicators for evaluating shares

Indicator	Formula	Description
Earnings per share	(Net Income – Preferred Dividends)/ Common Shares Outstanding	It is used to measure the profitability on a per-share basis.
Revenue per share	Quarterly Revenues/Common Shares Outstanding	Reflects the total revenue earned per share over a specific time period (e.g. quarter, year).
Book value per share	(Stockholders' equity – Preferred Stock)/Average shares outstanding	It can provide information on how a company's stock is valued if compared to the current market value per share.
Return on assets	Net Income/Average Assets or Net Income/End of Period Assets	It is used in order to determine how effectively a company is using its resources to make profit.
Return on equity	Net Income/Average shareholders' equity	ROE is considered the return on net assets because shareholders' equity is equal to a company's assets minus its debt.

Source: developed by the author

Understanding a set of elementary notions in the field of accounting is essential for understanding and assessing the level of indicators and making the decision to invest.

In recent years, the number of investors in investment funds in Romania has increased constantly, as can be seen in table 2.

Table 2. Evolution of the number of investors in investment funds in Romania in the period June 2019–June 2022

Local funds	**June 2019**	**December 2019**	**June 2020**	**December 2020**	**June 2021**	**December 2021**	**June 2022**
bonds & fixed-revenue instruments	146,852	215,199	202,873	218,563	249,330	258,750	236,639
multi-assets	61,796	64,190	65,200	72,878	81,277	95,231	101,397
shares	11,976	14,463	16,020	17,028	27,028	40,760	50,381
guaranteed/protected capital	3,425	3,261	2,337	-	-	-	-
absolute return	3,534	3,399	3,009	1,173	1,723	2,949	1,690
other funds	83,854	43,983	40,225	41,460	48,099	60,026	68,834
TOTAL open-ended investment funds	**311,437**	**344,495**	**329,664**	**351,102**	**407,457**	**457,716**	**458,941**
TOTAL closed-ended investment funds (including SIF and FP)	**88,807**	**88,707**	**88,628**	**88,562**	**88,522**	**88,436**	**88,394**
TOTAL FUNDS	**400,244**	**433,202**	**418,292**	**439,664**	**495,979**	**546,152**	**547,335**

Source: author's processing based on data published by the Association of Fund Managers in Romania (2019-2022)

An overview of the situation presented in Table 2 shows that, while the number of investors in closed-ended investment funds has remained relatively constant, the number of investors in open-ended investment funds has increased considerably. The biggest increase is seen in the number of investors in equity funds.

The annual statistical report published in 2022 by the European Securities and Markets Authority highlights how the costs are associated with investing in non-ETF and ETF funds.

Table 3. UCITS – performance and costs (5 years horizon)

UCITS	**Funds (non-ETF)**			**ETFs**
Performance and costs (5Y horizon)	Equity	Bond	Mixed	Equity
Gross performance (%, p.a.)	5.4	1.9	2.2	5.1
Costs (%, p.a.)	1.7	1.2	1.7	0.5
Subscription fees	0.13	0.2	0.15	0.09
Redemption fees	0.03	0.03	0.04	0.08
Ongoing charges	1.5	1.0	1.5	0.3
Net performance (%, p.a.)	3.7	0.7	0.5	4.6
Change in costs between 2016 and 2020 (%)	-3.9	-7.1	-4.9	-

Source: European Securities and Markets Authority (2022) Performance and Costs of EU Retail Investment Products ESMA Annual Statistical Report, p.5, https://www.esma.europa.eu/sites/default/files/library/esma_50-165-1677_asr_performance_and_costs_of_eu_retail_investment_products.pdf

As can be seen, the level of these costs substantially affects the performance that investors ultimately achieve. In this report it is emphasized that 'Retail clients paid on average around 40% more than institutional investors across asset classes'.

In addition to information of a financial-accounting nature, investors must also consider information on ownership breakdown, company management, stock transactions carried out by insiders, ESG issues, buying or selling of assets, launching new products/services.

With the development of the Internet and information technology, there have appeared numerous platform that offer investors, in addition to data and information on the capital market, complex analyses conducted by professionals.

3. CONCLUSION

The risks to which the enterprise is subjected in the market economy increase the role of accounting information, which becomes indispensable in making investment decisions. In the current context, accounting knowledge must be possessed by both the people working in the accounting department and the stakeholders. Investors should conduct a careful analysis of the potential of their investments and consider the costs associated with such investments, which may diminish or even cancel the performance achieved.

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