

## Efficient Analyses of Chinese Stock Market

Luqi Yang <sup>b,\*</sup>, Ling Li <sup>a</sup>

School of Xi'an University of Science and Technology, Xi'an 710000, China

<sup>b</sup>346344050@qq.com, <sup>a</sup>233449957@qq.com

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*Abstract: According to the experience of western market, the fluctuation of stock market can reflect the economic changes in the economic system to a certain extent. In recent years, while Chinese economy has been growing steadily, Chinese stock market has been in the doldrums, which is quite different from the known economic theory. This abnormal phenomenon of Chinese stock market makes many scholars question the effectiveness of the Chinese stock market, so a large number of scholars have studied the efficiency of Chinese stock market from various angles. This article focuses on the current situation of Chinese stock market, accurately grasps the existing problems, and analyzes the efficiency of Chinese stock market.*

*Keywords: market efficiency theory; Chinese stock efficiency; stock market status.*

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### 1. INTRODUCTION

The efficiency of stock market refers to the reasonable price of stocks reflecting all relevant information of stocks, which makes the scarce capital or resources can be allocated optimally. Therefore, it is of great theoretical and practical significance to analyze the efficiency of Chinese stock market. The efficiency analysis of stock market is a powerful tool for stock market to allocate resources by analyzing whether stock prices reflect relevant information.

### 2. THE CURRENT SITUATION OF CHINESE STOCK MARKET

#### 2.1 There is excessive speculation, but the actual investment is insufficient.

In Chinese stock market, the short-term speculation is far more than the long-term investment behavior. The market participants only pay attention to the price difference of the stock market, so there are a lot of short line operation in the market. Market participants choose more value stocks with low P/E ratio, and pay more attention to the gains and losses of stocks rather than the long-term gains brought by growth stocks. This behavior of high turnover ratio is called speculative behavior.

For the stock market, appropriate speculation is necessary. It helps to stabilize the market price, reduce the chance of arbitrage, and also make the distribution of funds more reasonable among the industries. However, excessive speculation can cause the market to enlarge the

characteristics similar to the cobweb effect, which will lead to more severe fluctuations in prices and thus have a negative impact.

### **2.2 The structure of the company is chaotic which affect the pricing mechanism.**

Pricing mechanism is the core mechanism of the stock market, which reflects the actual value of listed companies. In recent years, the split share behavior has made the circulating and non-circulating shares have different prices, different rights and different interests. This makes the structure of listed companies chaotic and the value blurred. The pricing mechanism has also been greatly affected

Because of the split share structure, many stocks can not be circulated in the market, which makes the listed companies only have few circulating shares in the market. In addition, many small listed companies have been manipulated artificially, resulting in their stock prices fluctuating greatly and speculation prevails. It makes the pricing mechanism difficult to play its role, causing investors to lose confidence in the stock market and affect the development of the national economy.

### **2.3 Irrational investment in high risk earnings**

Participants in Chinese stock market are not clear about risk. Higher returns are often accompanied by higher risks. Investors should clearly recognize their risk tolerance when investing. China's stock market has just started, and many investors are entering the stock market for the first time. Without relevant experience and experience, it would be too easy to withstand the impact and withdraw from the market. Moreover, Chinese stock market lacks relatively authoritative information disclosure and evaluation mechanism, which makes it easier to listen to kinds of irregular stock analysis, and finally inevitably affect the behavior of investors and produce bad returns.

### **2.4 The system of Chinese stock market is not perfect**

There are many shortcomings in Chinese market environment. Firstly, the disharmony of the national industrial policies and regional policies hinders the development of the enterprises, thus limiting the development of the stock market to a certain extent. Secondly, because state-owned enterprises have always been the main body of Chinese economy, a number of state-owned enterprises that need to be reformed are listed as an important part of the stock market[1]. However, the policy tilt of the state to these enterprises has greatly damaged the investment function and financing function of the stock market, and worsened the environment of the stock market. The government's excessive interference in the stock market also limits the direction of the development of the stock market, and the growth point of the stock market is constantly changing with the change of policy. This kind of non-market fluctuation not only hinders the stock market from exercising its original function, but also makes investors lose confidence, thus causing the depression of the stock market. This is because the non market change of the stock market has reduced the attractiveness of investors, which will lead to undervaluation of the stock market and impede the development of the stock market. In addition, the information system of China's stock market is imperfect, and there are a lot of asymmetric information. There is a serious unfair trade between investors and insider speculators. Predictive financial

information disclosure is less and not accurate. The legal system of supervision is imperfect and has loopholes, which makes the speculators to be able to take advantages. It will damage the interests of most market participants and reduce the effectiveness of the stock market.

### **3. THE EFFICIENCY OF CHINESE STOCK MARKET**

Since the Chinese stock market is unable to meet some institutional conditions of the efficiency analysis theory of the western stock market, Xihong Pan has put forward a theory of "Three kinds of efficiency" which is suitable for the efficiency analysis of Chinese stock market. That is, institutional effectiveness (approximately fully competitive stock market), information effectiveness (the accurate, timely and full reflection of stock prices on related information) and value effectiveness (the optimal allocation of funds or resources is realized by the rational pricing of stocks) [2]. Therefore, the efficiency analysis of Chinese stock market should be the unification of three kinds of efficiency analysis, which is based on the analysis of efficiency and information efficiency and value efficiency. Of course, according to the neoclassical general equilibrium hypothesis, on the basis of institutional effectiveness and information effectiveness, value effectiveness can be automatically realized.

### **4. ANALYSIS OF THE REASONS FOR THE LOW EFFICIENCY OF CHINESE STOCK MARKET**

The low efficiency of the stock market not only hinders its effective deployment of capital allocation, which is not conducive to the healthy development of the capital market in China, but also leads to the price distortion of the stock market, the occurrence of corruption and power rent-seeking behavior.

#### **4.1 The short-term behavior of investors in stock market leads to a serious disconnection between stock price and stock value.**

In Chinese stock market, whether institutional investors or individual investors, the deep reason for their short-term investment is that most listed companies lack the long-term investment value. The performance of the listed companies is generally lack of sustained growth, and the "misappropriating" phenomenon is serious. In order to qualify for listing, the company will whitewash the financial statements. The utilization efficiency of capital is low and the company's profit level has been reduced year by year. In particular, the listed company transformed from state-owned enterprises are often "excellent performance in the first year, normal performance in the second year and terrible performance in the third year". In order to obtain more opportunities for financing, some listed companies falsely disclose the use of raising funds and amend their financial statements without authorization. No dividends, little dividends or even vicious dividends have occurred repeatedly. On the other hand, because of the short-term behavior tendency of the company managers and some large shareholders, the small shareholders' voice is weak when they exercise the voting power, which leads to the company managers and some large shareholders' actual manipulation of the stock price under the condition of the lack of external constraints.

In a word, when the listed company lacks the long-term investment value and the stock price is seriously deviating from the real value, the investor will be dissatisfied with the return of the dividend from the company's value growth and turn to pursue the short-term profit in the market. So the speculation is inevitable. The result is that the stock price and the stock value are more disjointed, the transaction information contains more speculative factors, and many of the information that have the value of the decision is eliminated. If this phenomenon becomes the mainstream of the market, the efficiency of the stock market will be out of the question.

#### **4.2 Stock market' information disclosure is not timely, inaccurate and incomplete: violations occur frequently.**

Securities are a special commodity. Investors make decisions based on the information they can obtain, such as macro economy, industry development and company operation, as well as the random information in the market. Investors make different decisions based on the different information collected by themselves [3]. The information disclosed by the listed companies is the main basis for the value judgment of the investors, especially the financial accounting information, which is not only the core content of information disclosure, but also the focus of the majority of investors. Therefore, whether the information disclosure in stock market is timely, accurate and complete is the main criterion to evaluate whether the securities market is standardized, healthy and effective. However, there are many problems in the information disclosure of stock market in China, especially the violation of information disclosure by listed companies. By disclosing false information, the listed company conceals the assets outside of the account, inflates profit, conceals the important matters, frauds to go public, illegally embezzles funds, and buys and sales shares illegally. "Minyuan Qiong", "Bai Wen Zheng", "ZhongkeChuangye" and "Yinguangxia" have caused great impact on China's securities market and triggered crisis of trust again and again.

The purpose of market information disclosure is to be fair, impartial, public. The financial disclosure of companies that are ready to be listed or already listed should strive for the truth, accuracy and integrity based on the principles of no false records, misleading statements or major omissions. If investors make decisions based on information that is "fictitious", the stock market will not be able to develop healthfully, let alone efficiently. Some people compare the Chinese stock market to the "casino". There are few financial analysis of listed companies and industry analysis. Phenomenon of advocating "hot spots" hype, following the trend and betting on the "Zhuang" are very common. The stock price rises deviated form its basic value drastically, and the P/E ratio is generally high. The information contained in the stock price can not fully reflect its value. The stock market has accumulated a lot of diseases in the false prosperity. Its value discovery and the function of resource allocation are difficult to be realized in this situation, and the efficiency can not be reflected.

#### **4.3 Institutional defects in Chinese stock market lead to market positioning, functional positioning and unclear management positioning.**

The function of the mature stock market is to evaluate the value of the enterprise and optimize the allocation of resources. However, because of the special period of the transformation, the

unique fund- raising function of Chinese stock market is very obvious. To dump their "burden", The state-owned enterprises raise funds through listing. Their highly concentrated ownership structure leads to the management of the listed companies not to worry about the opinions of the shareholders. The lack of effective external constraints will eventually lead to a few people to encroach on the interests of the majority.

In addition, the relevant management departments in the stock market are not clearly positioned, and the policy lacks stability and continuity, resulting in serious speculation in the stock market. The wagging of Chinese regulatory departments and the uncertainty of policies aimed at the object leads to that the economic analysis in the stock market is not as useful as the internal news, and that the rational investment is not as good as the "policy" speculation. Therefore, the Chinese stock market, which should give full play to the function of value discovery and resource optimization, has deviated from the correct direction. The operation of the whole market is subject to various constraints and restrictions. Chinese stock market' benign development is faced with many difficulties.

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