Chapter 4: Factors Responsible For Retail Investors' Aversion to Stock Market

4.1 What is human sentiment in stock market

Humans are not machines. The ability to take decisions based on emotions makes us human. In fact without emotion we would be largely incapable of taking any decisions. There are a group of people who, through tragic accidents or radical surgery, have had the emotional areas of their minds damaged. These individuals did not become the walking optimizers known as homo economicus. Rather, in many cases, these individuals are now actually incapable of making decisions. They make endless plans but never get around to implementing any of them. But many times i.e. all too often human allow emotion to rule unchecked. In case of making decisions about buying and selling stocks in stock market, various emotions of human being plays significant role and influences the decision making. This is called human sentiment in stock market.

4.2 Characteristics of human sentiment in stock market

Various such unchecked sentiments of general people of India that play a significant role in taking decision about stock market investment in India along with the reasons for creation of those emotions is discussed below.
The following chart shows the various sentiments that are predominant in respect of stock market investing in India by general people of India and the reasons behind evolution of such emotions.

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<th>SENTIMENTS</th>
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To start with the first sentiment i.e. “FEAR” it can be said that India being a developing country and most of the Indians who have the potential to invest in stock market are middle class and for them every rupee earned is very valuable. Moreover, Indians are conservative by nature. These two aspects i.e. value of the money earned and conservativeness together make the general Indians very fearful of any type of monetary loss. Stock market is not risk free. There is a certain amount of risk involved in stock market investment. This element of risk makes the general people shy away from investing in stock market. They become averse to investing in stock market.
Some aspects that enhance this inherent fear factor of general people of India are (1) Media (2) Advice and (3) Scams and Downturns of stock market that are discussed below.

4.3 How news from different avenues affect human sentiment in stock market

(1) Media - Today media plays an important role to enhance this fear factor of general people in respect of investing in stock market. Media today has spread like never before. Starting from traditional newspapers to magazines, radio, television and internet based websites, the reach of media is today everywhere. Some time ago it was unimaginable that the common people could receive news at this high speed and in an unbelievably transparent manner. News the way it is shown today is almost like entertainment and every person involved in media is in a race to make news flow faster than the competitors and make them more appealing than the others. This practice has some advantages and some disadvantages. The advantage is that people get to know about almost all the important news in every field of life on daily, at times hourly basis. The disadvantage is that the manner in which some news items are presented influences the decisions of general people in different ways. For example, if someone decides to go to a particular place and the news shows that there is some tension in that area, that particular person may cancel or postpone his or her visit to that place without actually verifying it from some
other authorized sources. The same thing happens in the case of stock market investments also. There are many news items (almost all details) about the capital market, available everywhere. Most of the general people do not have an in-depth knowledge about stock market. They believe whatever news, good or bad, that come their way and take decisions on that basis. The fear and pain of losing money is much more than the pleasure or satisfaction of increasing the returns on their investments especially in such an unknown field. So, rather than absorbing the good news, they absorb the bad news. The big crash story, the big scam story, the big inflation, the big economic crisis and many other stories are presented in such a sensational manner by the media that general public becomes basically very scared of investing in stock market. So, they avoid investing in stock market.

4.4 How rumors, recommendations, tips propaganda etc. affect human sentiment in stock market

(2) Advice - Another aspect contributing to this fear factor of general people of India towards stock market investing is the rumors, recommendations, tips that almost everybody gets from people around us. Starting from the financial advisors to insurance agents or some other agents involved in the agency service of various fixed income securities like bank fixed deposits, post office deposits, Life Insurance, Government bonds and NSCs are always seen influencing people against investing in stock market. They strongly discourage
them by explaining only the negative points and rumors about both stock market direct investments and also about stock market investments through mutual funds. Also, it has been seen that many general people who themselves do not have any in-depth knowledge about stock market make other people understand about the high risk aspect of stock market investing in which one should not invest and recommend people to go for only fixed income bearing securities. Thus make general people highly averse of investing in stock market.

4.5 How scams and downturns affect human sentiment in stock market

(3) Scams and Downturns - Stock market scam is a securities fraud which is a type of serious white-collar crime in which a person or company, such as stock broker, brokerage firm, corporation or investment bank, misrepresents information which the investors use to make decisions. The type of misrepresentations involved in this crime includes providing false information about the company’s financial status, withholding key information, offering incorrect advices, and offering or acting on inside information. Securities fraud can also be committed by independent individuals such as by engaging in insider trading. Insider trading means buying and selling of a stock by someone who has access to such information about the stock, which is not known to the public.
Allegations of securities fraud are investigated by the Securities and Exchange Board of India (SEBI). The crime can carry both criminal and civil penalties, resulting in imprisonment and / or heavy fines. Some common types of securities fraud also include manipulating stock prices, false reporting in documents submitted to SEBI, and committing fraud and the financial accounts of the company.

Indian stock market is not free from such scams. Since liberalization and globalization of Indian economy commenced in 1991, the country has witnessed at least a dozen major white collar crimes and frauds in the financial sector. Despite the presence of regulatory authorities such as SEBI, financial frauds are occurring at regular intervals. India has witnessed major financial frauds almost every year throughout the nineties.

There is a whole history of frauds in the financial markets starting from the famous securities scam of 1992. Handiwork of the then bull Harshad Mehta, this scam unearthed the systematic problems facing Indian financial markets. He triggered a rise in the Bombay Stock Exchange in the year 1992 by trading in shares at a premium across many systems. Taking advantages of the loopholes in the banking system, Harshad and his associates triggered a securities scam diverting funds to the tune of Rs.4000 crores (Rs.40 Billion) from the banks to stock brokers between April 1991 to April 1992. When the scam was exposed, SENSEX suffered a decline of 570 points on April 28, 1992.
Then the Preferential Allotment fraud broke out in 1993, in which money transnational corporations (TNCs) allotted shares to themselves at prices way below the prevailing market rates. It has been estimated that these TNCs profited to the tune of Rs.50,000 million. The indirect blame for allowing this fraud should go to the then Finance Minister, Manmohan Singh. Eager to quickly deregulate and liberalize the Indian economy, Singh with, one stroke abolished the existence of the Controller of Capital Issues (the official body which used to regulate capital issues and pricing) in June 1992. When the media exposed the disastrous consequences of removing these controls, SEBI had to re-regulate the preferential pricing norms. But by the time SEBI took action, TNCs had already made a killing by issuing shares to themselves at throwaway prices.

Between 1992 and 1996, the country witnessed the Primary Market fraud, also popularly known as Vanishing Companies fraud. In the absence of strict guidelines and regulations, fly-by-night operators floated as many as 4069 public issues and collected over Rs.4,50,000/- million from the public on fictitious grounds. After raising the money, these operators vanished with the money. This fraud came to the notice only after 2 years of its happening. Still, several vanished companies are yet to be identified and punished.

In mid 1990s, the country also witnessed the Plantation Companies fraud when dubious investment companies raised nearly Rs.50,000/- million from the
public plantation schemes. After convincing the investors that money grows on trees, promoters vanished with the money. Then the stock market saw the Non-Banking Financial Companies fraud, in which small investors were duped by fly-by-night finance companies promising very high returns on fixed deposits. In this case, by the time the regulatory authority got into action, unscrupulous operators had already fled.

In 1998, Indian financial markets were rocked by massive share price rigging fraud involving reputed industrial groups such as BPL, Sterlite and Videocon. On October 5, 1998, the SENSEX recorded a sizeable fall of 224 points when an international institutional investor, Morgan Stanley, in tandem with an international bear cartel, resorted to heavy short selling. The attack by the bear cartel was unleashed on those stocks in which the government owned Unit Trust of India had made substantial investments. This day is also known as “Black Monday” in the Indian financial markets.

In 1999, the country was under the grip of information technology mania. All on a sudden, a large number of private companies in order to dupe ordinary investors added dotcom to their names. For instance, Oriental Paper Limited changed its name to Oriental Software Limited and Aptech Business Machines changed its name to Aptec Infosys. After jacking up the price of the shares of their companies, the promoters vanished. Another company called Century Finance, changed its name to Cyberspace Infosys limited thereby manipulating
the price of shares, and the “politically well-connected” promoter of that company, Arvind Johri, vanished from the country along with the money leaving behind dozens of anguished employees and hordes of innocent small investors.

Likewise, the financial markets were in a serious panic on April 3, 2000, when the SENSEX lost 361 points following the income tax notices served on several FIIs operating in Indian financial markets. As a result, nearly Rs.6,00,000 million (approximately US $ 13 billion) were lost in this bloodbath. This was the second biggest single day market crash. These FIIs were routing their investments through Mauritius in order to benefit from the Indo-Mauritius Double Taxation Treaty. After accusing the fly-by-night operators for this crash and declaring that India is not a “Banana Republic”, the Finance Minister bucked down the very next day and cancelled the income tax notices issued to the FIIS. It is also an open secret that several Mauritius based corporate entities with huge amount of money operating the sub-accounts of FIIs were working in India. These corporate entities used FIIs to re-route illegal Indian money back to their country. Many of these sub-accounts were actively involved in price rigging by bulls and bears.

Then the UTI scam happened. Former UTI Chairman P.S. Subramanyam and two executive director - M M Kapur and S K Basu and a stock broker Rakesh G Mehta, were arrested in connection with “UTI Scam” UTI had purchased 40000
shares of Cyberspace on September 25, 2000 for about Rs.3.33 crores from Rakesh G Mehta when there were no buyers for the scrip. The market price was around Rs.830/-. The CBI said it was the conspiracy of these four people which resulted in the loss of Rs.32 crores (Rs.320 million) to UTI. Subramanyam, Kapur and Basu had changed their stance on the investment advice of the equities research cell of UTI. The promoter of Cyberspace Infosys, Arvind Johari was arrested in connection with the case. The Officials were paid Rs.50 Lakhs (Rs. 5 million) by Cyberspace to promote its shares. He had also earned Rs.1.18 crores (Rs.11.8 million) from the company through a circuitous route for possibly for rigging the price in the Cyberspace counter.

In 2001, Home Trade had created waves with celebrity endorsements. But Sanjay Agarwal’s finance portal was just a veil to cover up his shady deals. He swindled a whopping Rs.600 Crores (Rs. 6 billion) from more than 25 co-operative banks. The government securities (gilt) scam of 2001 was exposed when the Reserve Bank of India checked the accounts of some co-operative banks following unusual activities in the gilt market. Co-operative banks and brokers acted in collusion in a bid to make easy money at the cost of the hard earned savings of millions of Indians. In this case, even the Public Provident Fund (PPF) was affected. A sum of about Rs.92 crores (Rs.920 million) was missing from the Seamen’s Provident Fund. Sanjay Agarwal, Ketan Sheth (a broker), Nand Kishore Trivedi and Baluchan Rai (a Hong Kong Based Non-Resident Indian) were behind the Home Trade Scam.
Another scam of 2001 was done by Ketan Parekh. Ketan Parekh followed Harshad Mehta’s footsteps to swindle crores of rupees from banks. A chartered accountant, he used to run family business, NH Securities. Ketan however had bigger plans in mind. He targeted smaller exchanges like Allahabad Stock Exchange and the Calcutta Stock Exchange, and bought shares in fictitious names.

- His dealings revolved around shares of ten companies like Himachal Futuristic, Global Tele - Systems, SSI Ltd, DSQ Software, Zee Silverline, Pentamedia Graphics and Satyam Computer (named as K - 10 scrips).

Ketan borrowed Rs.250 crores from Global Trust Bank to fuel his ambitions. Ketan along with his associates also managed to get Rs.1000 crores from Madhavpura Mercantile Co-operative Bank. According to RBI regulations, a broker is allowed a loan of only Rs.15 crores (Rs.150 million). There was evidence and price rigging in the scrips of Global Trust Bank, Zee Telefilms, HFCL, Lupin Laboratories, Aftek Infosys and Padmini Polymers.

In 2005, the IPO scam happened. Securities and Exchange Board of India barred 24 key operators, including India bulls and Karvy Stock Broking, from operating in the stock market and banned 12 depository participants from opening fresh accounts for their investments in the Initial Public Offer Scam. It also banned 85 financiers from capital market activities.
In the public issue by Suzlon Energy Ltd for Rs.1496.34 crores (Rs.14.963 billion) (September 23 – 29, 2005), the retail portion was over-subscribed 6.04 times and the non-institutional portion was oversubscribed 40.27 times. Key operators used 21692 fictitious accounts to corner 323023 shares representing 3.74% of the total number of shares allotted to retail individual investors.

In the public offer of Jet Airways for Rs.1899.3 crores (Rs.18.993 billion) (Feb 18 – 24, 2005), the retail portion was subscribed 2.99 times and the non-institutional portion by 12.5 times. Key operators used 1186 fake accounts for cornering 20901 shares representing 0.52% of the total number of shares allotted to retail investors.

In the IPO of National Thermal Power Corporation Ltd for Rs.5368.14 (Rs.53.681 billion) (Oct 7 – 14, 2004).the retail portion was oversubscribed 3.73 times and the non-institutional portion by 11.93 times. Key operators used a total of 12853 fake accounts for cornering 2750730 shares representing 1.3 percent of the total number of shares allotted to retail investors.

In the public offer by Tata Consultancy Services' for Rs.4713.47 crores (Rs.47.134 billion) (Aug 19 – 23, 2004), the retail portion was oversubscribed 2.86 times and the non-institutional portion by 19.15 times. Key operators used 14619 'Benami” accounts to corner 261294
shares representing 2.09 percent of the total shares allotted to retail individual investors.

The public issue by Patni Computer System Ltd for Rs.430.65 crores (Rs.4.306 billion) (Jan 27 - Feb 5 2004). The retail portion was oversubscribed 9.36 times and the non-institutional portion by 39.22 times. A lone key operator used 2541 afferent accounts for cornering 127050 shares representing 2.71 per cent of the total number of shares.

In 2009, the biggest corporate scam in India came from one of the most respected businessmen of that time. Satyam Computers’ founder Byrraju Ramalingam Raju resigned as its Chairman after admitting to cooking up the books of accounts. His efforts to fill the “fictitious assets with real ones” through Maytas’ acquisition failed, after which he decided to confess the crime. With a fraud involving about Rs.8,000 crores (Rs.80 billion), Satyam was in great trouble.

When the scam was out, Satyam Computers, India’s fourth largest IT company lost a staggering Rs.10000 crore (Rs.100 billion) in market capitalization as investors reacted sharply and dumped shares, pushing down the scrip price by 78% to Rs.39.95 on the Bombay Stock Exchange. This NYSE-listed firm, also faced regulator’s action in the US.
"I am now prepared to subject myself to the laws of the land and face consequences thereof’, Raju said in a letter to SEBI and the Board of Directors, while giving details of how the profits were inflated over the years and his failed attempts to fill the fictitious assets with the real ones.

Raju also said that the company’s balance sheet as of September 30 carried inflated (non-existent) cash and bank balances of Rs.5,040 crores (Rs.50.40 billion) as against Rs.5,361 crores (Rs.53.61 billion) actually reflected in the books.

These above mentioned frauds created tremendous fear in general people about stock market investments. Here it must be noted that occurrence of a scam is a part of stock market. It is not that no one made profit in stock market all these years and that return from stock market was negative all these years. On the contrary equity investment on an average has given the highest return among all the investment tools all these years. A proper research on the stock a person wants to buy can minimize the risk of facing any big scam and downturn on that stock. If a proper methodology of investing in stock market is followed, then the return from stock market will be much higher than the return from other fixed income bearing investment avenues with minimum risk element.

Moreover, Securities Exchange Board of India (SEBI) being a premier institution for dealing with the problems relating to securities has come a long way towards protecting the investors from the hazards of the predators existing
in the stock market. It has compiled large sets of guidelines dedicated to this cause. SEBI has achieved if not 100%, then for sure closer to 100% as far as protecting the interests of the investors. The new guidelines are formulated in such a way that no stones remain unturned in the path of this mission.

4.6 Other associated factors affecting human sentiment in stock market

The next key sentiment of general people’s aversion to investing in stock market is the “FINANCIAL PESSIMISM” of the household sector. It is already seen that most of the eligible people who can invest in stock market are the middle income category people. The income of this category of people is more or less fixed. The high cost of living caused by high inflation resulting in high price of basic food items like grains, vegetables, fruits, oils etc., high transportation cost, high educational expenses, high medical treatment expenses, high prices of medicines and high cost of medical services etc. has made it very difficult for general people to save a substantial amount of savings. They manage to save a little with lots of hardship and struggle and this leads to a financial pessimism due to which they cannot think beyond any fixed return bearing securities for investment of their savings. They are not in a state of mind to think of some new investment avenue to put their savings from where they can get the higher returns even with minimum risk. They are unwilling to face the minimum risk due to that pessimism. Moreover they feel that their savings is too small for any higher return and nothing big can be done with it.
It is very difficult to come out of that mental frame but it is also true that even a very small amount of savings if properly planned and invested through systematic investment planning can make a big corpus in the future. The power of compounding can make a small savings into a big maturity in the long run.

Another very strong sentiment that deters the general people from investing in stock market is “LACK OF CONFIDENCE” in financial planning. The main reason for this lack of confidence in financial planning is the lack of knowledge in this field. There is a section of people who are totally unaware of stock market. Among this section of people, many are very highly educated with high level of income. It has been observed that not only the young generation but the middle aged people and old aged people who have a standard education and also have standard level of income from well-established source are unaware about this area of investing. They are not only unknown to the direct stock trading but also to the mutual fund route of equity investment. Even those people who have some idea about stock market only know vaguely what it is but there is no strong knowledge which is necessary to make an investment in stock market. It has also been noticed even most of the MBA students who later joined the corporate world are also totally ignorant of the direct investments in stock market as well as indirect investments i.e., through mutual funds. This lack of knowledge leads to lack of confidence due to which they are unable to invest any money in the stock market.
Then the sentiment "SET BACK" due to suffering loss in the past in stock market by general people, deters these general people from once again investing in stock market. Those very few general people who actually invest in stock market mostly suffer from loss due to some basic mistakes done by them while investing in stock market and that causes a mental set back among them, because of which they become totally averse of investing in stock market anymore. The basic mistakes done by the general people while investing in stock markets are discussed below.

General people often invest in stock market on the basis of recommendations they get. They invest in stocks recommended mainly by people around them who are friends or relatives or colleagues. Those who recommend themselves may know very little but that does not hamper their overconfidence and enthusiasm in any way. They act as though they are very knowledgeable about all matters of stock markets and their advices will enable the new investors to multiply the investments 10 times over a week or month. Many general people get lured by such statements and invest blindly in securities thus recommended without doing any study on the stock, they are investing in. This leads to wrong investment and finally they end up making losses. Another source of wrong recommendation adapted is from newspapers, magazines, television and different websites. It is not that all of them are wrong. The brand name of the newspapers, magazines, television channels and websites firstly matter, but even if the brand name is very good and dependable, blindly following any of its recommendations is just to gamble with the hard earned money. The risk is
very high when the recommendations do not work, and the investors end up suffering heavy losses in the investments.

The very small segment of Indian general people who invests in stock market mostly fails to catch the market at right time. They enter the market when the SENSEX has already reached a very high point and a correction is most likely to happen at that point of time. They also select those stocks whose prices has gone up quite a bit in expectation of further rise in those stock prices without any proper justification for that further rise. Instead the prices of those stocks also await for a correction at the point when the general people buy them. As a result they face correction both in case of SENSEX and also in case of stock price immediately after their investment. They become confused and wait for the market to recover and stock prices to bounce back until the market corrects further and the stock prices fall further much below the price at which it was bought by them. At this point of time they become panic and sell the stocks at a much lower price than which it was bought. So, as a result they suffer huge loss in stock market investment by forgetting the basic rule of investing of buying the stocks when the price is low and sell it when the price is high. Their profile has not changed much over the years and they have unfailingly lived up to the tradition of entering the market close to its peak and then exiting in the ensuring correction with maximum losses. Brokerage houses describe them as someone with Rs.5 Lakhs to invest and in most cases as someone with a fund upto Rs.5 Lakhs to "burn". The selection of their stocks also suffer in quality as they prefer low price stocks so that they can buy them in large numbers with
the limited money they have. Generally, stocks which belong to medium capitalization and small capitalization mid-cap and small-cap stocks include comparatively new companies with high level of risk as they are trying to establish their business and also include some old companies whose business are not in a very sound phase thus risky. They are averse to invest in frontline shares and prefer those stocks which they can own in multiples of thousands. Naturally mid-cap and small-cap stocks are their favourite hunting ground. The mid-cap and small-cap stocks are the stocks which get most badly affected by any market correction and as the general people own mostly these stocks, the general people who invests in stock market get very badly affected by any market downturn by suffering loss in those mid and small cap stocks.

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Another mistake made by general people who invest in stock market is that they forget to sell. So many people develop cold feet when the markets start to
rise. They just hold on to the stocks though they can get good returns on their investments. The greed becomes so heavy that they start “building castles in the air,” anticipating the extra profits they would earn if the share prices continue to rise further. Every now and then they will click their portfolio and feel happy over the virtual profits. And then suddenly there is a slump in the markets. But they still hold on to their shares thinking that the fall is temporary and the index will again start going up. And one fine day it touches such a low, that they stop looking at their portfolio. The main reason for this is that general people who invest in stock market start looking for infinite return from their investments.

General people who invest in stock market often look for short-term gains. If one wants to make quick profit from stocks, then he/she should have the ability to identify the quick enter and exit points of a stock that holds a very narrow margin of profit. It is very difficult and mainly done by highly experienced and cash rich technical analysts and brokers in stock market. Stock prices fluctuate wildly over short period. Profit or loss making depends highly on the ability to clinch the deal at the right moment and the general people who try to make this quick money in stock market mostly fail in that due to the lack of ability in accuracy of the timing of entry/exit for a stock and end up incurring losses. These people feel left out during the phases of a bull trend or in times of short term surges and to avail the financial benefit with minimum effort and time they go for short term deals and end up losing money in stock market.
Due to these mistakes, retail investors often suffer losses from stock market and after the repeated losses from the investment in stock market a mental set back sets in. They become highly averse to investing in stock market.

4.7 How human sentiment is co-related to the movement of SENSEX

It is also observed that the co-relation between human sentiment in stock market and movement of SENSEX also make people ultimately averse to investing in stock market. We are all born with some instincts. Only some of them can be changed but not all. Investment aptitude is a reflection of our basic instincts. This is called the behavioral aspect of investing i.e. the way we behave while investing. It has been observed that the way general people behave while investing in stock market is co-related with the movement of stock market. Stock market moves in cycles and for general investors this cycle is full of sentiments. This unchecked sentiment causes them to suffer losses and they end up losing their money in stock market and that makes them averse of investing in stock market.

The following graph clearly shows how general investors emotionally behave with the movement of stock market that causes them loss in stock market.
The story starts when the stock market i.e. the stock market index in India called SENSEX is on a high point. When the market is near its peak, the general people usually start to feel optimistic about investing in stock market and this optimism translates into excitement and thrill. They start buying stocks at that time when stock prices are very high. A market correction is just waiting to happen. This point is called euphoria when the prices of stocks are unreasonably valued and just after this the bubble bursts and the market as well as the stock price starts to fall. Invariably this fall is really steep. At this point of time the anxiety factor comes into play.

The general investors fail to understand in which direction the market is heading i.e., whether it will continue to fall or again bounce back. Another emotion quotient here is the inability to accept and own up ones’ mistakes i.e. denial. This leads them to start believing that market will bounce back. In reality most of the times, the markets continue to fall and the stock prices come
much below the purchase price of those investors. At this stage the fear factor sets in as to how to prevent further losses which results in depression about the reduced value of their investments. This depression leads them to a state of panic and they end up selling the stock at the prevalent price at a huge loss. This phase is called capitulation. At this point of time when the share prices are at its lowest and there is a huge opportunity to buy stocks at a very cheap price, the general people suffer from the emotion called despondency. Despondency is the depression arising out of loss of hope, confidence and courage. From this low point to the time when markets start recovering, the depression deters the general investors to invest in any stock. Hope is rekindled in such investors only when the market starts recovering again and there is a slow decrease in the depression in their minds accordingly. Now when the market is again nearing its peak, the optimism again sets in the minds of general investors and they again invest in the stock market. The same cycle recurs and the general public again ends up losing money in stock market.

This repetitive loss creates huge set-back among general people and they become averse to investing in stock market.

Now let us attempt to know how Behavior had influenced investments in stock markets in the last three years. The data in study is the BSE SENSEX movement from September 2007 to September 2010. These 3 years were a good ride for sentiments. If the graph would have been for the year 2000 to 2010, this would
have been almost same in many ways. To simplify the study, only 4 main emotions have been sorted out:

(1) Thrill and Euphoria  
(2) Anxiety and Denial  
(3) Fear and Panic  
(4) Relief and Optimism

Firstly during 1st September 2007 to 14th Jan 2008 in 4 months the SENSEX jumped from 15300 to 21000 - almost a 40% rally in these 4 months. This time the Thrill and Euphoria developed among general investors and they started investing during that period only to experience the bubble burst immediately after that in January 2008. On 22nd January SENSEX touched a bottom of 15300 almost 30% down in 10 days. On 4th February SENSEX touched 18900. But mid caps / small caps were butchered. The general public at this time was unsure about the direction in which the market will turn and Anxiety was the emotion at that time. They were as usual anticipating a market recovery but markets started dropping further and at this point of time Denial of one’s errors were the emotion. After this when stock price falls much below their purchase price the Fear of any further loss starts developing. That led to Panic selling the stocks at huge losses. On 27th of October 2008 SENSEX touched a low of 7697. From high of 21000 it was down by 66%. Midcaps and small caps were down almost 80 – 90%. General investors had seen the worst. The pain caused by the huge losses made many of the investors decide not to look at stock market
again. Markets started rising again, the rise was slow but consistent. As expected, at this point of time, general investors stayed out of the markets, missing out buying highly valued stocks at a bargain price. Then the D day came - Parliamentary Election results were out. Against the general perception of a hung parliament, Congress won with majority. 18th May 2009 turned to be one of the best days for equity market - market hit the upper circuit and trading was suspended. At this point again Relief and Optimism started gathering momentum among general public.

This way general people fail to make profit in investments in stock market because of their unchecked sentiments and they become averse to investing in stock markets after these repetitive mistakes and losses.