CHAPTER 1: BACKDROP
My area of work is to identify Investor confidence as an economic indicator which measures the degree of optimism of Investors about the overall state of the economy and their personal financial situation. How confident people feel about stability of their incomes determines their spending activity and therefore serves as one of the key indicators for the overall shape of the economy. In essence, if the economy expands causing Investor confidence to be higher, Investor will be making more investments. On the other hand, if the economy contracts or is in bad shape, confidence is lower, and Investor tends to save more and spend less. Investor confidence works closely with Age, Ethnicity and Education. All these combined effects are visible as a Risk Appetite of the Investor. In technical analysis one parameter is tracked with utmost focus. It is being named as MACD (Moving Average Convergence Divergence). MACD signals towards the speed of price change or momentum. This makes a momentum investor buying a stock in upward trend. The technical aspects are however not considered while focusing on MACD.

Judith Burns once stated investor psychology influences the behaviour of financial markets. During Bull markets people tend to view business success with respect. However in severe bear markets, people tend to view business leaders with suspicion. Though the context and country is different, however the principal theme remains the same. The difference between a savvy investor and a not so savvy investor is evident in their respective behavioural pattern. When the valuations are low the savvy one will risk its money in order to buy stocks, and the other investor will prefer to wait for a time which is supposedly good, even though the valuations are on an euphoric high. Sometimes investors predict their returns from the stock market in a large band, and sometimes they are found to predict the same in a narrow band. These biases are known as “Cognitive Bias”. Along with this bias, investors are also found to be anchoring around a certain price of a stock or an index while expecting tangible gains such as dividends. That strong mental attachment to that certain price is another bias called as “Anchoring”. There has been a gap between the predictive behaviour in investors from the actual behaviour of the investors. The actual behavioural pattern is known as “Positive”. The correct behavioural pattern is known as “Normative”. According to Prospect Theory by Kahneman & Tversky the investors invest after calculating potential gains and they calculate the losses from a certain reference point. In Indian context, the impact is even more as the financial literacy is found to be quite low. India is found

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3 http://www.livemint.com/Money/FKCInDmM8Vb1Ac2TPd1jKL/Financial-literacy-in-India-very-low-says-survey.html
to be at the bottom after a study conducted in Asia Pacific region in MasterCard’s Index (Annual). This study is predominantly based on urban mass, considering the large rural masses in India, the result could only be worst. This study intends to quantify investor sentiments in a diverse and dynamic investment scenario in India across different asset classes by different groups of investors. Post which this study identifies efficient stocks, emerging out of detailed and in-depth statistical analysis to unite with the quantified investor sentiments and finally emerges as the “Composite Index”.