CHAPTER 2: OBJECTIVE & PROBLEM STATEMENT OF THE STUDY
Objective & Problem Statement of the Study

While studying the behaviour of Indian Capital Markets, especially the broad based S&P BSE 100, it has been observed that whenever the technical parameters indicate the effective beginning of investment (i.e. the valuation of available securities are relatively cheap) then only Foreign Institutional Investors (FII) and Domestic Corporates (DII) take part, the retail investors or HNIs will invest with a definite phase lag. It has also been noted that when the valuations are stretched the HNIs start allocating funds & when the valuations touch euphoric heights, then participation from Retail starts. These observations lead the researcher for the quest to know, whether investors in India, to large extent are driven by sentiment or confidence measures or not.

Then quantifying those sentiment parameters with the efficient stocks under consideration could lead the study towards a fruitful outcome, which in turn could be beneficial to all types of investors in India. The Rationale behind investment decision timing for each specified group of investors such as SMEs, HNIs & Retail was never quantified. Composite Indices with both confidence & technical parameters have never been constructed in India.

Most of the studies have either been conducted on US Capital Markets or EU Capital Markets. Even in the developed scenario, composite Index is not used. The major question lies here that the average Investor Knowledge & understanding between USA & INDIA are not similar; on the contrary, Indian Investors are neither updated, nor financially literate. Gold & Land investments are always having precedence in India, with a highly complex social structure and ethnic bias, coming down from age old beliefs. People hardly invest in equities, as they think, it is a sophisticated form of gamble, to them Debt means Bank (only Nationalized) Fixed Deposit. A Country which is integral part of the BRICS, a part of the emerging global economy, the BPO for the entire world, providing cheap but effective manpower solutions to business all over, having a safe base of ever growing middle class society with ability to spend, but with ethnic concepts & investor prejudice while investing their wealth, negative affinity towards Insurance as a concept, always in search for a safe heaven, at the same time looking for an above average return, lack of financial knowledge is prevalent in a large & significant way. This kind of diverse & complex base is a study in itself, however this study intends towards a solution rather than finding a pattern inside the chaos.
The variance of Indian markets with Efficient Market Theory is supposedly quite high. US Capital Markets behave closely with a lower variance from Efficient Market Theory. Back in India, research has been limited in the fields of behavioural finance & economics. Whatever little relevant material is found, that is on FII & DII. The other facets namely HNI, Retail & SME are neglected without any plausible reason.

So, under these circumstances the objectives of the study is

1. Defining the research boundary well, so that what is included & what is excluded is clearly mentioned, while taking care of time zone, geographical area, defined Investor Strata, defined Stock basket etc.
2. To take a 360° approach with the help of three Indices of Broad Based (S&P BSE 100), stable (S&P BSE HEALTHCARE) & volatile (S&P BSE OIL AND GAS) in nature & to find the efficient stocks out of that defined basket of stocks
3. To quantify the Investor Confidence (sentiment based part), both in deriving direction, as well as in obtaining coefficients (measurement of impact)
4. Construction of Composite Index, with Technical & Sentiment based parameters, merging logically for an efficient Investment route map for every Indian Market participant

Indian Market being on a growth phase a Composite Index will help the Investors to derive the trend line. Even within Indian Indices, BSE 100 & other two allied indices enjoy only a small allocation of the large FII & DII pie. Within the specified indices certain stocks do follow efficiency unlike the vast majority. This study & body of work has been dedicated to merge those efficient stocks with quantified investor confidence (sentiments), so that a combined or Composite Index can be created for every participant in the Indian Capital Markets.

The cardinal “Problem Statement” that this study is trying to address is the effect of impact on an Index by certain behavioural bias by a defined set of Investors (with three further subsets). So, the Composite Index will capture that impact & in fact it will be in built in to the new Index.