ABSTRACT

Rationale: Financial market is becoming increasingly popular for a wide variety of participants. Regulators, investors, managers all are using financial markets for their own purposes. Lots of theories are prevailing in the financial books and are also utilized at the proper time. The new filed known as behavioral finance which deals with the moods and traits of participants. Behavioural finance is assumed that agents are irrational contrast to the traditional theory of finance that agents are rational. In that agents are taking care of any kind of information and update their beliefs. Irrationality assumes that agents are not ready to modify their behavior based upon information prevailing in the market. Behavioral finance proved that in the market when rational and irrational investor interacts irrationality has long lived and substantial effect. In the one of the two building block of behavioral finance limited arbitrage is based upon above said concept. It also proves that according to traditional finance theory arbitrage remains in the market and one can always take benefit of it. But authors of behavioral finance strongly proved that arbitrage does not mean risk less profit. It is always limited. And the cost associated with it are also very high so does not make risk less profit. Behavioral finance often described such kind of irrational investors as ‘noise traders’, while rational traders are known as ‘arbitrageurs’.

Behavioral finance is applied at many places which are very diverting in its nature. It ranges from psychology, aggregate of stock market, cross section of average return, close end funds, investor behavior and corporate finance. My focus is on the corporate segment of behavioral finance. The main theories exist for the corporate behavioral finance one is when investors are irrational and other is when managers are irrational. This research is entirely upon the first theory i.e. irrational investor’s view. In this approach investors are irrational meaning they are not updating themselves with the prevailing information about the firms, while managers are rational enough to exploit any kind of deviation of their stock price from the fundamental value. The use of behavioral finance in the corporate field is not done for Indian capital markets. As many of corporate activities like capital restructuring, capital budgeting, mergers are happening in the corporate world; this study would provide good guidelines to the managers to avoid trap mispricing based overvaluation in the markets.
**Purpose:** Managers are supposed to exploit mispriced security by market timing mechanism with the view of irrationality among investors. Market timing is defined as the act of buying undervalued securities and selling overvalued one. Managers also took financing and investment decision in the perception of maximizing of firm value. My focus is measuring market timing mechanism for Indian companies and analyzing that action (market timing) has been justified by proper financial or investment decision or not.

**Design/Methodology/ Approaches** – Corporate managers are major participants for my research of Behavioral corporate Finance. It is very difficult to do primary research from such participants. So my research involves secondary research. Measuring market timing involves data from Profit and loss and balance sheet of last 10 years for selected companies. To measure market timing it is necessary to measure some ratios. And it is proved that market timing is the cumulative attempt to time the market. For the same reason I measure relation between equity issuance and market to book ratio of firm. The sample size of study include those companies who have raised IPO during 2000 -2005 and having minimum issued amount is 50 crore. Total such kind of companies include 46 companies excluding for government companies, financial companies as they are having their own rules and reasons for issuing equities. After establishing positive relationship between equity issuance and valuation of the firms, next focus is using this amount for positive investment purposes. Study includes measuring effect of one variable with other four dependant variable. This is best analyzed by regression analysis.

**Findings**- I found that Indian companies are follows market timing mechanism who follows valuations and depending upon that they time their equities in the market. But this timing does not actually used for any genuine purpose. From the second hypothesis I found that the amount issued is only to take advantage of irrationality of investor rather any good or genuine purposes.

**Research Limitations**- The key limitation of this study is sampling frame. Future study should be conducted in the same context with higher samples either in the same or some other context.

**Keywords** – Behavioral corporate finance, irrational investor approach, Market Timing, Price to book ratio.