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STUDY OF RETAIL INVESTORS PARTICIPATION IN INDIAN STOCK MARKET

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Abstract:

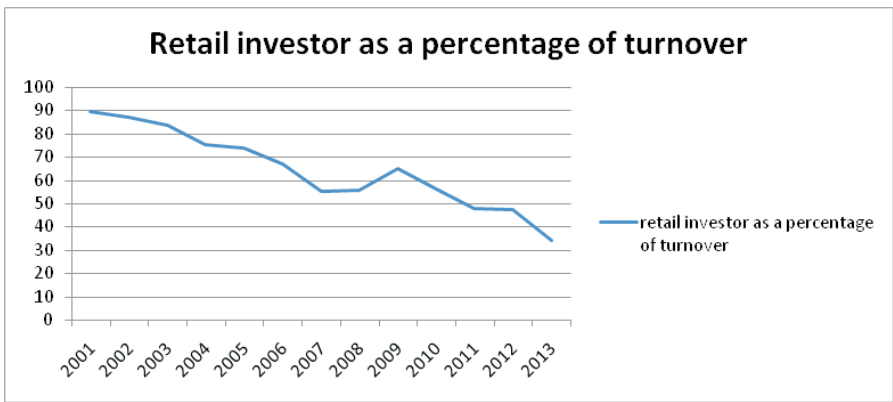
There have not been many papers that have analyzed the reason for lower participation of retail investors in the stock market in India. This paper seeks to give arguments for lower participations of retail investors in the stock market. We also give suggestions for encouraging more participation of retail investors in Indian stock market.

KEYWORDS:

Retail investor, participations, Indian stock market.

INTRODUCTION

Stock markets have risen to a new high level in 2013. But retail participation is at a 10-year low. The daily cash market average volume of retail investors is down to around Rs 4,615 crore in 2013, the lowest since 2003 and 66% down from peak of Rs 13,709 crore in 2009. Retail share in daily turnover is at its lowest this year, having dropped to 34% from 89.5% in 2001. On the other hand, the contribution of foreign institutional investors (FIIs), which have been allowed to invest in India since 1993, has risen to 47% from 8% in the same period. (Economic Times)



LITERATURE REVIEW

Previous research suggests that retail investors have more influence in small capitalization stocks

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STUDY OF RETAIL INVESTORS PARTICIPATION IN INDIAN STOCK MARKET

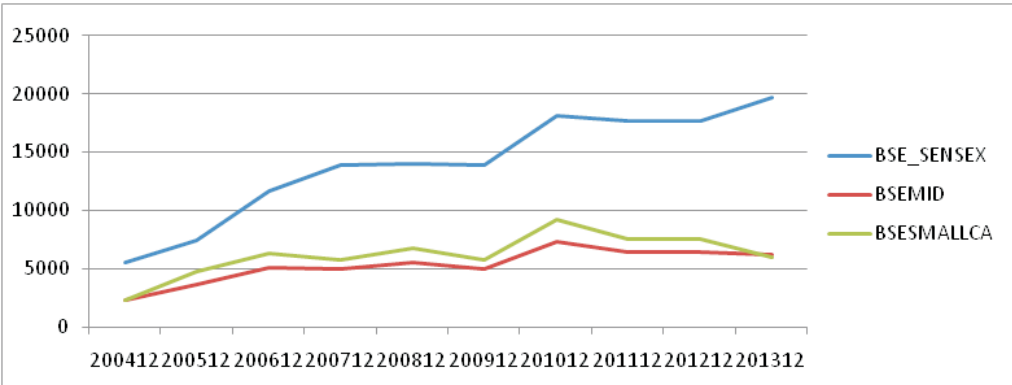
and argues that retail investors are most likely to be irrational. During period of prosperity (Bull Market), investors buy stocks and make large profits in both primary and secondary market. Unfortunately, sturdy economic times are almost always followed by trembling economies (Barsky, R.B and J.B DeLong, 1990). Investment in stocks is a high-risk, information-sensitive professional task that has considerable impact on the investors’ lifestyle. The investors in the developing countries like Bangladesh behave like short-run speculators and aggressive traders (Bloomfield, Libby and Nelson, 1998; Potter, 1971). Retail investors in the developing countries are strongly influenced by the advice provided and actions taken by brokerage houses (Lewellen, Lease & Schlarbaum, 1977). Western studies have shown that the retail investors normally invest over the long-term (Baker & Hashem, 1973)

ARGUMENTS FOR LOWER PARTICIPATION OF RETAIL INVESTORS

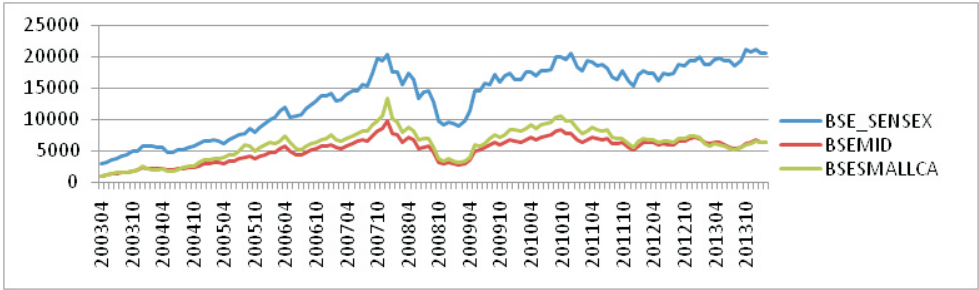
The following arguments are given for lower participation of retail investors:

- 1.Retail investor is unable to make the returns from the investments. They are investing at a time when market are rising and at its peak and selling off when market falls and at its bottom level. Research also has pointed out to this irrational behavior of the retail investors. Investors tend to put in money only when the markets are rising and expensive. During period of prosperity (Bull Market), investors buy stocks and make large profits in both primary and secondary market. Unfortunately, sturdy economic times are almost always followed by trembling economies (Barsky, R.B and J.B DeLong, 1990).
- 2.Retail investor is getting better return at banks, national saving certificate, bonds and that to at lower risk.
- 3.Brokers have lost interest due to stringent rules and lower fees. Retail investors in the developing countries are strongly influenced by the advice provided and actions taken by brokerage houses (Lewellen, Lease & Schlarbaum, 1977).
- 4.Lower return given by small and mid cap investors to get quick returns in which generally all these retail investor invest.It is evident from the below two diagrams which show adjusted yearly closing price and monthly price. BSE Sensex rises 4 times where as BSE Midcap and small cap rises only 2 times. Western studies have shown that the retail investors normally invest over the long-term (Baker & Hashem, 1973). This trend will over shadow their prospects into stock market

Average yearly adjusted closing price



Monthly Closing price

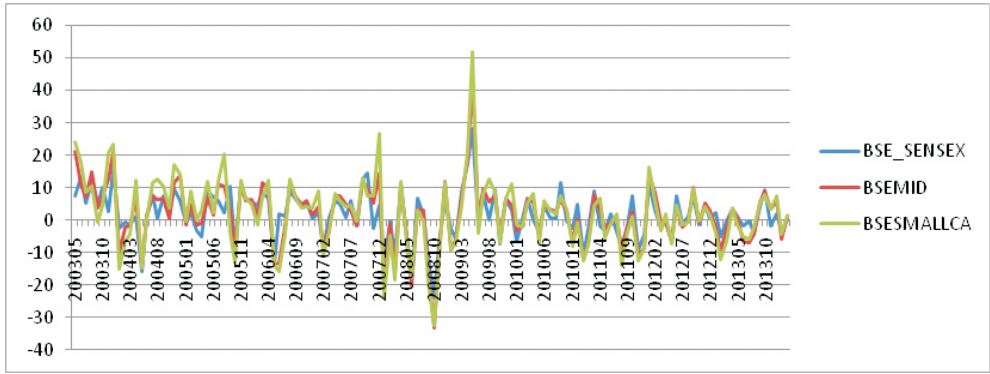


- 5.Rise in Volatility index India VIX: Indian investors seem to be quite risk averse but market has shown wide volatility over the years. This also discourages retail investor to invest in India. Retail investor generally

STUDY OF RETAIL INVESTORS PARTICIPATION IN INDIAN STOCK MARKET

invests in small cap and mid cap shares. The following graph shows that returns from small cap and mid cap shares are more volatile than BSE SENSEX.

Returns from small cap and mid cap and BSE SENSEX



6.Political Uncertainty

Political uncertainty has the vast impact on keeping away the foreign institutional investors from the stock market. Thereby small investors influenced by the behavior of foreign institutional investors

CONCLUSION AND IMPLICATIONS

Retail investors usually follow foreign institutional investors and make irrational decisions such as buying at a time when market is at peak. They also depend upon the advice of brokers and analysis. There is need for more education and training of these investors, when they are dealing in the stock market. There is also need to reduce the volatility of stock market when it becomes severe. They should also be provided with better return in the stock market, since they are taking a comparatively high risk. The motivation of brokers is also very important in keeping retail investors faith into stock market

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