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ARE THE FIRST TIME RETAIL INVESTORS IN DEMAT ACCOUNTS UNDERTAKING RATIONAL INVESTMENT DECISION MAKING: A THEORETICAL EXPLORATION WITH QUESTIONS

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ABSTRACT:

First time investors in DEMAT accounts identify as a niche research area. First time retail investors and their irrational behavior has been a matter of extensive research especially as the global policy framework is mulling increase in retail investor's capital market participation on global basis. The respective issues of dimensionality and conceptualization of 'first time retail investor's investment decision making' are getting extensive research focus. First time retail investors typically identify as the set of investors who have just started ploughing their savings as parked in bank accounts or in term deposits or elsewhere into capital markets in lieu of higher returns. Scholars are of viewpoint that 'first time retail investor's investment decision making' identifies as a multi-dimensional research construct involving wealth self-management and contemporary control over returns perspective and protean orientations. As such this paper relies on theoretical exploration of phenomenon with three broad research questions that seek to figure out the underlying lateral research paradigms guiding financial decision making across first time investor.

Keywords: First time retail investors, DEMAT Accounts, Irrational decision making, Disengaged investor, Information processing, Democratization of capital markets

INTRODUCTION

The prediction of 'effective returns' from investments is an important issue to investment researchers and managers. Recent reviews of the literature reveal that different internal, cognitive, psychological, industry driven and external contextual factors seem to drive the return generation from investments by retail investors (McCarthy, 2020). Scholarly work on subject is of the opinion that 'investment derived returns' is depend on investor's own orientations, ability to undertake a balanced and unbiased decision regarding plugging in and moving out from an investment, investor's own mindsets and frame of reference, capabilities, knowledge, skillsets as well as extent of rationality in decision making.

CURRENT SCENARIO

More recently, the biases and dismal returns have been observed as discouraging investors from consistent involvement in capital markets. The problem is more gruesome when post pandemic institutional investors are getting selective and strategic whereas retail investors are not exhibiting the intent to sustain their involvement in capital markets (Sen, 2022). The challenges towards retail ownership of stocks and securities are immense. As per multi

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criteria decision making theory, investors and their sustenance in capital market participation is influenced by identification of requirements(comfortable way to invest rather learning the investment), goal settings (easy and quick money making syndrome), ill-structured identification of alternative courses of action, respective development of criteria to ascertain loss or gain and respective identification of decision making techniques (Acevedo & Garcel, 2022).

GRAVITY OF PROBLEM: THE NEED FOR DEEPENING THE CAPITAL MARKETS

In order to bring more funds into the capital markets, globally the retail investment is being given a formal policy push (WEF, 2022). The global policy push for deepening the capital markets with retail participation in aftermath of pandemic and financial turbulence and the need to support industrial production (WEF, 2022). The current spate of capital market volatility and urgent need for funds mobilization has sought a probable way out in democratization of the capital markets and mobilizing the retail savings. Retail investor and bringing his money into capital markets is emerging as global policy agenda as retail investors account of nearly half of the global wealth.

THE CHALLENGE

Despite the gains from retail investor's participation in capital markets, the gains and sustenance of return and sustainability of investor's participation in capital markets is under question. The disengagement and random entry-exit(from market) seems to be the usual phenomenon. The crucial gaps seems to prevail with regard to investor's decision making, investor's protection, awareness and learning cycles, empowerment and learning, reliability of information, personalization, data security, privacy, financial literacy and information being leveraged by investors for decision making. Not only the scope for retail participation in capital markets is being widened the forms and formats have multiplied. The tradition physical buy and selloff of shares has given way to day trading, IPO investment undertaking, futures and options trading, exchange traded funds, mutual funds and exchange traded gold holdings. These new and novel forms of stock market participation also comes with their own set of biases, irrational decision making problems and consequences for returns. The subsequent rise of 'meme stocks' in Indian capital markets has further complicated the generation of subjective returns from the stock market participation (Zhao et al., 2023).

APPROACH IN THIS PAPER

The paper hence reflects on the problem with three broader research questions that seek to capture the state of affairs in theoretical perspective. The literature was reviewed with key word search and emphasis was placed on uncovering the diverse dimensions of problem. The first time investor's demand identification, searching for requisite and relevant information, evaluation of alternatives or best possible way out; does lead the investors to deviate from rationality and is line with observations regarding how first time investors behave, analyze and draw meaning from their own interpretation of stock movements as illustrated by Bloomfield(2010). The interference from emotions, perception, preferences, intuitions, culture, ideology, religion, impulses, feelings and opinions and pre-determined learning is rampant. Such a state of affairs points to predominance of systematic errors in judgment, heuristics, beliefs and judgments as influencing first time investor's stock market participation and resultant investment manner and probable returns. As such it makes sense to cover the entire gamut of determinants of rational or irrational decision making by first time investors.

RESEARCH QUESTION ONE

What are the theoretical and conceptual approaches towards understanding the investment decisions by the first time retail investors in DEMAT Accounts

The research question addresses the issues of limited and dismal stock market participation by first time investors. The studies on subject matter have associated first time with various aspects of skills, with individual skill dexterity, individual awareness of market working, fund flow cycle management, autonomy, self-determination, self-efficacy, self–directed socialization, cognitions, pre held mindsets, motivation and ease of entry and exit prospects. Scholars on subject argue that decision making models in financial decision making have evolved from rational and bounded rationality to behavioral, neuroscience, psychological, cognitive and human-computer interaction driven impetus as well as application of golf theory and fuzzy logic perspective (Song & Wu, 2023). As such theoretical discussion will focus on these aspects: theories linking decision making with outcomes, theories with regard to alignment of decision making with financial market and theories with regard to economic significance of investor's financial literacy and empowerment.

Theories with regard to irrational and foolish behaviors

The theories with regard to decision making by first time investor pertain to manner in which the psychological deficiencies in human psyche lead to irrational behaviors resulting into irrational investment decisions on account of selective information usage, on account of rigid investment analysis use, or on account of selective investment strategies or subsequent portfolio management. The inability of traditional approaches (Dabara, 2014) to decipher the investor's thinking behavior has given way to new and behavioral modes of investment decision making. A common and major drawback in theoretical preview is the absence of common guiding theory or a unified approach to understanding the biases and anomalies in investor's decision making. Research by Ahmad and Ibrahim (2017) on the cognitive biases in the human mind with regard to decision undertaking pointed to the critical role of human psychology in shaping the cognitive biases and affective biases which seem to shape the heuristics formation, sentiment formulation and setting of emotional temperament. The study observed the heuristics and sentiment derived irrational behaviors as influencing the investment decisions in biased manner. The biases were observed to creep in in form of the manner of information processing, in manner of belief management, in manner of inertia to change, in manner of investment analysis being undertaken and with regard to portfolio management tactics being adopted. The study observed the impact of individual traits, biological factors, sociology aspects and respective investment modeling as shaping

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perceptions of risk, return and risk adjusted return. The study pointed to the prevalence of significant impact of emotions, sentiments and illogical thinking as shaping investment outcomes vis a vis risk assessment. The illustration below(figure 1) shares the notion that cognition derived rules of thumb or short cuts or emotionally derived shortcuts that over rule subjective assessment often translate into outcomes that are not as desired or expected. The first time investor's distinct demand specification (financial stocks, IPOs, futures, and intent to invest in other stock listed products), search for information (type of information the investor is searching for, accessing or getting access to, extent of leveraging being undertaken) and evaluation of alternatives(usage of rationality, usage of financial models and tools or being just driven by false sense of confidence or per advise, agent's advice, app suggested or AI driven suggestions or corporate disclosures or meme stocks as featuring across social media) ; all seem to be reliant on the extent to which investor is impacted by surrounding economic uncertainty, financial literacy and intent for sudden wealth gain syndrome. As such first time investor's financial investment decision making literally configures into information use, investment intent, portfolio juggling and consistent change that rarely leads to appreciable returns yet creates dismal position.

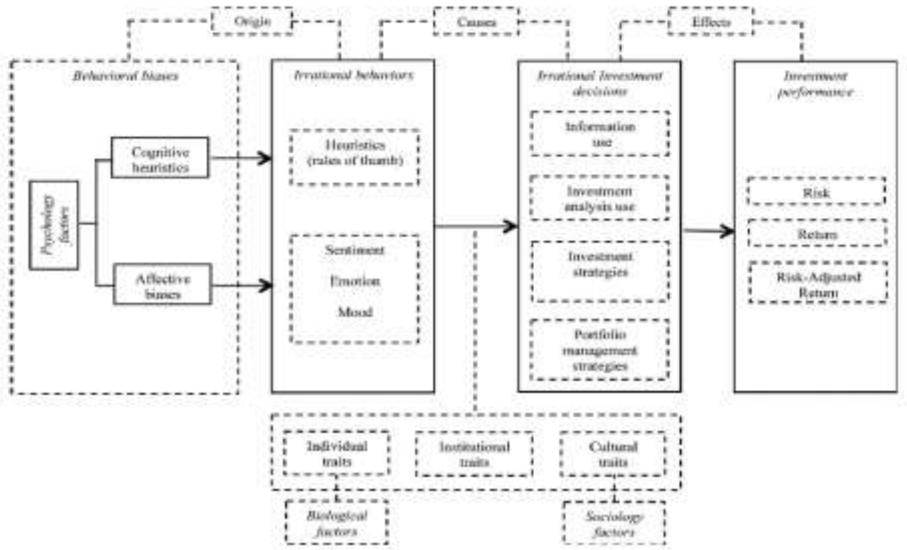

Figure 1: Influences on investor's risk assessment and decision making

(Ahamad & Ibrahim, 2017)

The respective biases as commonly observed on pattern of information usage, access to information are mentioned below.

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Investment decision making dimensions summarized

Investment decision making Dimensions	**Probable effects-Irrational decision making**	**Possible causes of irrational decision making/Evolution of biases**
Information use	Investor's dependence on information other than corporate disclosures. Information processing patterns, Constraints and inertia to incorporate new information, Susceptibility to external information, Locus of control, Information overload, Rumors,	Biased information access, biased information usage, Biased information search and processing Biases could be evident in form of herding, inertia to change, or excessive change under information pressures
Investment Strategies	Excessive external or usual search for investment tips, strategies or short term gains approach	Over confidence, rampant change of portfolio, self-attribution biases, loss aversion inclination, mental accounting framing
Investment Analysis Use	Insistence on usage of technical analysis in securities selection	Day trading and haphazard decision making evident in form of consistent sale-purchase without any rationale. Chasing a trend and following leads from news or across internet advisory. Online and television anchor based tips and trend watch without any arithmetic or numerical basis

Theories with regard to alignment of investor's decision making with financial markets

The possible distance between financial markets events and investor's decision making too seems to matter (Amram & Kulatilaka, 1999). There are number of theories that pertain to individual investor's realization of subjective difference and distance between financial market trends and happenings and investor's own propensity to decide and act as per financial markets. The paradigm emphasizes need for structuring and systematizing the decision with taking into consideration all the relevant information on value and risk that could probably matter (Balwani & Majumdar, 2021).

Theories with regard to investor's financial literacy

The dismal state of financial literacy has been observed in literature as advancing the prospects for bias and foolish behavior as exhibited by first time investors. The first time investor have proven tendency for making short term gains from stock market participation in a single trading session or in their first investment in a day or two. This impatient and anxious drive to get benefits in a moment or two leads them to resort to behaviors that are nowhere in line with sensible and serious approaches to stock market investing. In fact scholars have observed that lack of financial intelligence and financial literacy is the root cause behind this state of affairs. The decisiveness in first time retail investors seems to appear to be shadowed by lack of interest in widening the options, non-inclination towards testing the assumptions, emotion as interfering with decision process and never ever prepared to be wrong (McCarthy, 2020).Across the rapidly growing body on first time investor's dismal participation, financial knowledge identifies as one of major contributor to sustenance of return from investing (Lusardi & Mitchell, 2014).

Theories regarding nudges and narrative establishment

The nudges and establishment of narrative is often evident as major feature of decision making. The advertisements, the AI codes, flash advertisements, editorials and wealth maximization based journals and publications all seem to implant a specific narrative in human mind in their endeavor to mobilize common man's savings. The positioning of home as asset, positioning of market linked insurance plans instead of term insurance and respectively positioning of specific stocks as performers; all seem to guide, encourage or presumptively restrict first time investor's choice making into a specific direction. The nudges are also set by financial influencers over social media and across You tube and across sure shot solutions across whatsapp groups and telegram groups. As per Thaler, a nudge is a micro targeted design geared towards a specific group of people and refers to influencing the course of action without coercion. The nudge setters often seem to guide the choice architecture of first time investors and securing a favorable course of action (Franklin et al., 2019). The nudge theory relies on fact that first time investor's behavior is not always in alignment with their intentions and on the premise that investor will certainly do something that is not in best self-interest of investor. Nudge setting in investing assumes two types of system: fast processing and slow processing. The time constraints, pressures and limited quantity promises often compel the first time investor to choose an option that is not high return yielding in daily trading or similar short term gaining intention.

In general a segment of literature (Ritika,Kishor, 2020) regards cognitions, emotional interferences, blind following, self-devised inertia to learn and change as per market or ignorance of information as vital determinants of first time investor's decision making influencers (Kaustia et al., 2023). A few others have also reported on individual's perspective of extent of estimation of risk, platform mediation feasibility, algorithmic management feasibility, and artificial intelligence based auto-suggestion prospects (Bilgehan, 2014). Another section resorted to role of digital transformation of investing, post pandemic realities, flexible and work from home aspects, availability of digital platforms payment aspects, technology diffusion as determining the momentum of retail investing (Frydman,Camerer, 2016). It is hence suggested that researchers needs to model the relationship between determinants and the decision making as happening across digital stock investing platforms in India. The respective dimensions as shaping the investing at individual,

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at contextual and at organization's level hence remain challenging and complex. The phenomenon of investment is not aloof from contextual influences especially from flash offers, technological reach and diffusion and democratization of stock market with technological out reach. As per online investing index, more and more investors (those investing while online channels) are succumbing to pressures from information, from misguided or curated information sources and yielding dismal returns.

The research is primarily derived from theoretical finance paradigms and the existing frameworks from the cognitive and behavioral perspectives. The prospect theory and notion of heuristics is thus central to discussion and reflection upon first time retail investor's stock market participation and investment behavior. The legendary prospect theory acknowledges the fact that reference points are critical to investor's basing the decision to choose a course of action on selective piece of information or experience or curated information or live example. This seems to act as critical basis point in discussions regarding the retail investor's decision making. The other leg namely the heuristics perspective observes that across the prevalent decision chaos availability, anchoring and representativeness tendencies are dominant. Investor's usages of heuristics seem to lead to commitment of error in judgment that validate as diverse forms of cognitive biases in the financial decision process. The research hence applies the fundamental notions of behavioral finance and cognition biases based approach to understanding first time investor's financial decision making behavior. The rationale behind this quantitative psychological and phenomenological research is to investigate whether first time retail investors are rational or irrational in decision making and how the first time retail investors leverage or abstain from certain biases and systematic errors in judgments while assessing returns.

RESEARCH QUESTION TWO

How the irrational behaviors and deviations and biases underline the investment decision making across first time retail investors in DEMAT Accounts

First time retail investors and their irrational behavior has been a matter of extensive research especially as the global policy framework is mulling increase in retail investor's capital market participation on global basis. The respective issues of dimensionality and conceptualization of 'first time retail investor's investment decision making' are getting extensive research focus. First time retail investors typically identify as the set of investors who have just started ploughing their savings as parked in bank accounts or in term deposits or elsewhere into capital markets in lieu of higher returns. Scholars are of viewpoint that 'first time retail investor's investment decision making' identifies as a multi-dimensional research construct involving wealth self-management and contemporary control over returns perspective and protean orientations. However there is unforeseen lack of unanimity regarding the exact number of dimensions that adequately represent the construct. While some researchers are of the opinion that retail investment decision making is a bi-dimensional research construct yet others focus on a three dimensional perspective of research construct. Across the broader investment making literature, the construct identifies as transition from

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savings to capital market participation or as sudden wealth making syndrome and as well as investment decision making under uncertainty (Ahamad & Ibrahim, 2017). The layered perspective identifies the construct as involving the stages and layers , the decision making perspective reflects upon the factors that determine and influence decision making regarding returns, adjustment notion focus on adjusting and demand-abilities fit perspective, relational notion regards investment decision making as socially embedded, identity perspective reflects upon the need for identity customization. The situation seems worrisome as there is no reliable and generalized model of measuring the first time retail investor's investment decision making behavior. The common stakeholders in the process involve the investor, the stock exchange, the technology service providers as well as the digital business platforms. The stock exchange and government's economic policy induced uncertainty as stakeholder in process needs equal exploration. The investor as stakeholder is more critical as his participation and investment behavior is crucial to the working of capital markets as well as working of economy (Talhartit et al., 2022). As Benjamin Graham once observed that retail investor's chief enemy is the investor himself. This very notion carries over to decision making errors (Jones, 2018) as underlining the investment decision making. First time retail investor's irrational behaviors and deviations and biases; hence needs a thorough review and examination in light of 'decision making under uncertainty' and under 'sudden wealth making syndrome' prospects.

RESEARCH QUESTION THREE

How the biases shape the prospects for risk tolerance and financial literacy across first time retail investors in DEMAT Accounts

The prevalence of biases and irrational approaches to investor's decision making does more harm than good. This is vindicated across literature that biases do interfere in market perception formation, subjective return assessment and market indulgence behavior. As proven in literature that sustenance of participation in stock markets is not easy as return's assessment is always under cloud. Investor's financial literacy refers to combination of market and financial product specific knowledge, skills and behaviors to manage one's financial resources effectively over the course of time. The sense of financial literacy involves the basic understanding of spending the money wisely, saving and growing the wealth for major life based events and secure optimum returns as well. The World Economic Forum research pointed to role of retail investor's financial awareness and financial literacy as shaping the perceptions of risk and subjective stock market participation (WEF, 2022). In view of the fact that investing is a critical tool for wealth creation and long term financial stability, the need for growth of responsible retail investing is there. Despite the reported increase in offline and online retail brokerages and digital platforms, significant number of people from India; are not investing in capital markets n consistent basis. Despite the market democratization, the issues of trust, access based challenges, limited availability of outcome oriented financial products still count. The observed lack of impartment of financial literacy skills from initial school hood seems an obvious reason. In addition to this scholars argue that the manner and pattern in which the companies are approaching the investor's financial education is not at all resonating well with Indian retail investors. The respective inability of Indian first time retail investors to realize the value proposition of investing in capital markets also figures in lackluster approach of Indians towards the value investing. A global survey revealed that social media is a potential source of information regarding investing decisions rather than advisors, corporate disclosures or self-wisdom. The survey also highlighted the fear of losing money as weighing more over the prospects to gain. The issues like having access to money, liquidity of investments along with gaps in financial education; have emerged as viable restraints on sustenance of retail market investments. As retail investors move out to secure control of their (whether by choice or necessity); the democratization of markets is underway. In this changed scenario, first time retail investor's understanding of basic personal finance and market fundamentals, knowledge regarding value of investing, manner of investing in sustainable manner, media literacy, learning about how to separate good information from fake information on internet and social media; all matters if the investor's participation in stock market sis to be consistent. In simpler words, investor empowerment and learning, investor's learned risk tolerance and financial literacy; are emerging as crucial for risk assessment and overcoming threats from stock market participation.

CONCLUSIONS

The research concludes that First time retail investors and their irrational behavior need further comprehensive exploration. Certainly the first time retail investors in DEMAT Accounts are not undertaking Rational Investment Decision making and that the irrational behaviors and deviations and biases underline the investment decision making across first time retail investors in DEMAT Accounts. The biases and cognitive limitations seem to extensively shape the prospects for risk tolerance and financial literacy across first time retail investors in DEMAT Accounts.

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