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# Indian stock market: A study on rise of retail investors

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### Abstract
Indian stock market crashed in March 2020 due to covid-19 pandemic and after the market crash, Number of Demat accounts in India have increased sharply. In March 2020, the number of demat accounts in India stood at 4.09 crore which reached 10 crore in august 2022. This explosive growth has increased stake of retail investor in the Indian stock market which was earlier dominated by FII and DIIs. Retail investors now account for 52% of daily transactions in the market. This rise in retail investor participation enables investors to participate in wealth creation happening through the capital market. Earlier retail investors used to deposit their money into banks and banks used to provided that money in form of credit to corporates at higher rate of interest. But now retailers are directly investing their money in corporates through equity, mutual funds etc and getting returns in form of dividends and price gain. It channelize saving from unproductive assets like gold into productive investments like equity and debt instruments, thereby contributing to higher capital formation and economic growth. Tradition methods of savings like fixed deposit, PPF, NSC etc. guarantee a fixed return with almost no risk but on the other hand, investments in share market have high risk associated with them. Investors are willing to take that high risk due to higher rate of returns which may vary from investment to investment. Many investors have made much higher gains in the share market than fixed income options provided by banks/government or other financial instruments. The researcher has made an attempt to understand reasons of this rise in retail investments and other aspects like investor awareness, goals and types of investments made by retail investors of Delhi. The study is based on primary data that has been collected through structured questionnaire filled by 200 respondents of Delhi.

**Keywords:** Stock market, demat accounts, fixed return, Investors, mutual funds

### Introduction
Saving and investing plays a vital role in financial wellbeing of an individual to fulfill his/her long term as well as short term financial goals. Before globalization and industrialization, people used to invest in fixed deposits and other safe investment options and the rates offered on these deposits were also quite good. But after 90s, rates on these safe secure deposits have decreased significantly and investors are moving toward different investment opportunities in search of high returns on their investments. Individuals around the world have become increasingly responsible for their financial planning and culture of saving and investment is becoming a part of Indian society. SEBI law defines retail individual investor as an investor who applies or bids for securities of or for a value of not more than Rs. 2,00,000 in an IPO and buys or holds shares worth less than Rs 2,00,000 in a stock. There is no such limit in commodities to define a retail investor.A retail investor is someone who buys and sells equity shares, commodity contracts, mutual funds etc. through brokerage firms or other types of investment accounts. To hold financial securities (Equity or debt) in a digital form and to trade shares in the share market an investor is required to have a Demat account. A DEMAT account (Dematerialized account) is like a bank account where you keep your share and securities in digital form. To trade shares in the stock market a user also need atrading account linked with his/her Demat account.

Earlier traditional brokerage firms used to charge high rate of brokerage on transactions made by investors and process of opening Demat and trading account was also very complicated to understand for many people. But in recent 4-5 years many discount brokerage firms have entered the market and changed the whole scenario of retail investing. Brokerage charges of these firms are very less and process of opening Demat and trading account is also very simple. Whole process of account opening is completed through E-kyc and customer is not required to visit any office or move physical documents. More than 50% of Indian retail investors are now using discount broker services according to a national stock exchange report.

Discount brokers have developed easy to use mobile applications which makes them easy to understand and easy to use for a common individuals.

Return in stock market is directly linked to the risk taken and market understanding of an investor. Where a large number of retail investors are mostly unaware of latest developments and technicalities of share market, mutual fund managing companies help them to make goods returns on their investments by investing in securities on their behalf. A pool of funds is created by professional fund managers and invested in different types of securities. Each investor owns units of mutual fund, which represent a portion of the holdings of the fund. The income gains generated from this collective investment is distributed proportionately amongst the investors after deducting certain expenses. Mutual fund business is regulated by SEBI and various banks have also created various mutual funds to fulfill their customer requirements. Participants of this study include all types of retail investors having investments in different types of options available.

**Objective of the study:** The following are some of the objectives framed for the study

- To find the reason behind the rise of retail investors in Indian stock market.
- To find various goals set by different retail investors and their expected rate of return.
- To find age and occupation of various investors.
- To find preferred type of investments.
- The study also aims at understanding the level of awareness among retail investors of Delhi.

## Review of literature

Shelly shrivastava (2022) tried to investigate the financial and non financial factors influencing equity investment decisions of retail investors. The process followed by retail investors to assess investment opportunities and their risk taking capacity is directly related with age, gender, income and occupation. Retail investors are better educated than ever before hence listed companies and other market participants are also keen to know the factors affecting their decision making.

Prasanna kumar baral (2021) has discussed significance of mutual funds and advantages of mutual funds to investors having lesser time and understanding of stock market. Limitations and risks of mutual funds are also very important factors and should be kept in the mind while making investment decisions. Investors should gain proper knowledge about risk and rate of return before investing. Researcher has discussed various terms used in mutual funds and has given an elaborate list of different types of mutual funds.

Mamtha D (2019) describes importance of derivatives in Indian stock market and how derivatives play an important role in risk management of retail investors. The study aims to understand retail investor investment styles, level of exposure, risk attitude and perception of derivatives markets.

Mane nagnnath adinath (2019) explains initial public offer and makes a trend analysis of Indian stock market regarding IPO. Many of the Indian unicorns have recently released their IPOs in the market and a large number of retail investors have made investments in these companies. Components of a successful IPO and reasons of failed public offers are discussed in the study.

## Research Methodology

The study is based on descriptive research and the present study was based on a survey conducted in Delhi. For the present study, responses were collected from retail investors of different age groups having different occupations. A total of 200 investors have been approached and The respondents were made clear about the purpose of the study & accordingly, confidentiality of their response was assured.

## Tools & techn$iques

Out of 300 questionnaires mailed to respondents, only 200 were found duly completed in all respects.

These were put to interpretations on the basis of different questions and dimensions considered for the purpose of analysis. Following dimensions were considered:

- Main objective for which investment was made
- The preferred type of investment
- Whether the occupation of investors had any bearing on the investment decision.
- Basis of investment decisions

## Precautions for data collection

Researcher has followed the ethics of data collection, only the subjects willing to respond were interviewed or asked to fill up the questionnaire.

Assurance was given to respondents that their identity would not be disclosed.

The respondents were given the option of not answering certain questions which require personal/ investments detail.

Rapport was established & maintained throughout the procedure of data collection.

Researcher has made an attempt to cover all type of investors from various age and occupation groups.

The respondents were asked to give honest replies only.

## Results and interpretations

Respondents were asked to indicate their responses on their investments goals, awareness of market conditions, proffered market segment and period of holding investments. The responses are discussed with the help of following tables:

## Main objective of investment

Respondents were asked to select the main objective of investing in the stock market from four options given to them. All 200 respondents had following reasons for investing in the stock market as given in the table below –

**Table 1:** Main objective of investment

| S. No. | Main objective of investment | No of respondents | Percentage (%) |
|---|---|---|---|
| 1. | Diversification of investments | 76 | 38 |
| 2. | Get higher returns than FDs | 92 | 46 |
| 3. | Trading as a career | 18 | 9 |
| 4. | Learning and research | 14 | 7 |
| | Total | 200 | 100 |

## Interpretation

Almost half of the retail investors want to get higher returns than FDs and other secure investment options. Return on FDs, NSC, PPF etc is considered very low by the investors and they are ready to take risk for higher returns.46% of the respondents fall into this category. Among 200 respondents, 76 respondents wanted to diversify their investments. These investors have already invested in real estate, FDs and other traditional investment options and desire to diversify their investment portfolio. 9% respondents were pursuing stock trading as a career and most of them are youngster who find stock market trading an easy way of making money. 14 respondents invested a very small amount of money to learn about stock market and trading. They were curious to know about the market before making large investments.

**Preferred type of investment**

Investors can make investment in the share market in equity, futures and derivatives, mutual funds, commodities etc. according to their goals and expected returns. Investments in equity and mutual funds are considered less risky than futures and derivatives. Futures and derivatives are preferred by high risk taking investors who prefer higher returns on their investments in a short span of time. The Table given below shows preferred investment type of various investors-

**Table 2:** Preferred type of investment

| S. No. | Preferred Type of investment | No. of respondents | percentage |
|---|---|---|---|
| 1. | Equity | 82 | 41 |
| 2. | Futures and derivatives | 52 | 26 |
| 3. | Commodities | 6 | 3 |
| 4. | Mutual funds | 60 | 30 |
| | Total | 200 | 100 |

**Interpretation**

41% of retail investors prefer cash segment (equity) because of low investment requirement and comparatively low risk. 30% of retail investors prefer mutual funds due to least risk associated and decent long term returns. 26% of investors preferred trading in options and futures, where much higher volatility is found. Only 3% respondents preferred commodities over other options available.

**Occupation of investors**

Occupation of respondents is very important aspect for understanding objectives and expectations of various investors.Table given below shows the occupations of various respondents-

**Table 3:** Occupation of investors

| S. No. | Occupation of investors | No. of respondents | Percentage (%) |
|---|---|---|---|
| 1. | Businessman/women | 58 | 29 |
| 2. | Retirees/pensioners | 32 | 16 |
| 3. | Government/private employees | 52 | 26 |
| 4. | Professional traders | 18 | 9 |
| 5. | Others | 40 | 20 |
| | Total | 200 | 100 |

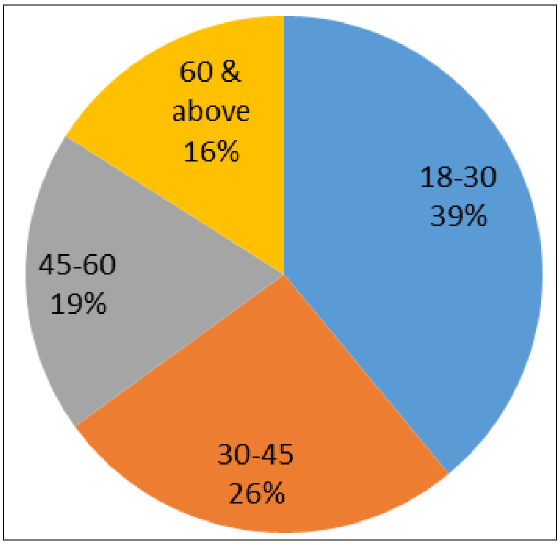


**Fig 1:** Age of investors

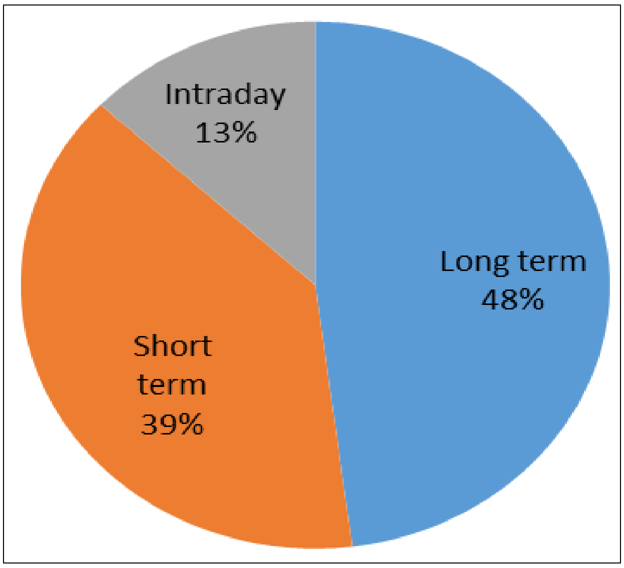


**Fig 2:** Duration of holding

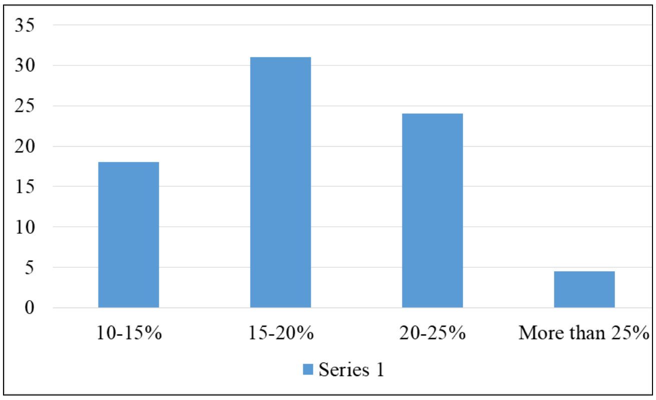


**Fig 3:** Expected rate of return

**Basis of investment decisions**

Table given below shows how respondents made their investment decisions in the share market. This table shows the level of awareness among investor regarding their investment decisions. Whether they did any research before investment, took advice from any SEBI registered broker, took advice from friends/relative/other unauthorized sources or invested without any knowledge.

**Table 4:** Basis of investment decisions

| S. No. | Basis of investment decisions | No of respondents | Percentage (%) |
|---|---|---|---|
| 1. | Own market research | 74 | 37 |
| 2. | Advice from SEBI registered broker | 26 | 13 |
| 3. | Advice from friends/relatives/others | 56 | 28 |
| 4. | No market research or advice | 44 | 22 |
| | Total | 200 | 100 |

### Interpretation
from above tables and pie charts, it can be easily understood that people of young age are more attracted towards share market and people of higher age group are comparatively less in the number of retail investors. Businessmen/ women are 29% (highest) of total respondents and 52(26%) respondents were private or government employees. This shows inherent characteristics of risk taking attitude of businessmen and youngsters. Respondents of these category prefer high risk on their investments for higher returns. 48% of investors prefer long term investments and 39% investors prefer short term investments. Long term investments are those investments which are made for more than one year. Investments made for less than one year are called short term investments. Intraday investments are made by traders who invest for only one day in any script. These investments are made in highly volatile scripts to earn scalping profits. Intraday investments are considered very risky due to their exposure to extremely high volatility. It was found in the study that awareness and research based investment practice is very low among retail investors. Only 37% investors are investing in the share market after market research. Half of the investors are making investment decisions without any research. Their decisions are either based on random guessing or advices given by their friends, relatives or others mediums. Many of these investors are taking advices from unauthorized sources like youtube or telegram channels. Only 13% of investors are taking advice from SEBI registered brokers.

### Conclusion and suggestions
In earlier days, people used to invest in real estate, FDs, NSC etc. as they were considered safe investments and guaranteed a certain return, but nowadays interest rates on deposits are very low and prices of real estate properties are not rising very rapidly.

Investors who desire higher rates of return are moving toward share market where they can get higher returns on their returns. Exponential rise in the number of retail investors is a result of the same.

Youngsters were found keener to take high risk positions for high returns.

Rise in the number of retail investors in the stock market will make capital funding easy and cost effective for corporates.

It was found in the study that many of the investors had no knowledge about market trends and latest developments. They were blindly following advices given by friends, relative or other people for making investments decisions in the stock market. Many of them lost their hard earned money due to ill-informed investment decisions.

Investments without proper knowledge of the market conditions lead to heavy losses in the stock market. Thus it is very important for investors to do proper research before investing in the market or take advices of SEBI registered brokerage houses who provide investment advices to their clients for a certain fee.

People working in government/ private jobs who have no time to understand and learn about the stock market can choose an appropriate mutual fund for investment were their funds will be managed by an expert.

Mutual funds are specifically developed for these type of investors and many of them give annual returns in the range of 15-25% which is much higher than FDs and other safe investment options. Mutual funds are very good option of tax saving investments where investors can get high rate of return for their tax saving investments.

Overall the rise of retail investors in the stock market is a healthy trend for the economy and will be helpful for economic growth and prosperity of the country.

### Limitations of the study
Time is always a constraint in every research.

The respondents were from Delhi, respondents could have been contacted from other cities as well.

Sample size was 200 respondents. It could have been bigger.

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