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INVESTOR BEHAVIOUR IN THE ERA OF VUCA ENVIRONMENT

Dr. SurabhiVinodar Rao
Lecturer in Commerce, Kakatiya Government College, Hanamkonda, Telangana State.

Abstract
The business world has changed dramatically over the last few decades, and we now live in a connected society where change can be fast-paced, constant and unpredictable. Investors live in a VUCA world. The VUCA description for the environment provides a richness concerning the investment problem that is not captured with just saying that investors are faced with higher volatility or that there is a chance for black swans. Volatility tells us the behavior of prices, but does not tell us much about the decision problems we face navigating the investment environment. It is highly important and relevant as a measure of risk but it does not tell us what may cause the environment to be more volatile or why risks may increase. In view of the scenario, the paper highlights on investor behaviour towards capital market and impact of VUCA environment on behaviour of investors. The study further presents an attempt to evaluate the investor behaviour using select model.

Key words: VUCA, EMH, BSE Sensex, NSE Nifty.

1. Introduction

Investment culture among the citizens of a country is an essential prerequisite for capital formation and the faster growth of an economy. Investment culture refers to the attitudes, perceptions, and willingness of the individuals and institutions in placing their savings in various financial assets, more popularly known as securities. A study on the investors' perceptions and preferences, thus, assumes a greater significance in the formulation of policies for the development and regulation of security markets in general and protection and promotion of small and house-hold investors in particular. The Indian securities market has made substantial progress during the post-independence period. The structure as well as the functioning of Indian securities market has been transformed beyond recognition since 1990s. The profile of the investing public, investment vehicles available, the investment environment and the nature of problems encountered by the small and household investors are substantially different today from what they were a decade ago.

The Indian capital market has grown so sharply in the 1990's and that the decade itself has been christened as a decade of the capital market. However, the amount of capital raised in the form of equity, preference shares and debentures by the corporate sector has not been large over a number of years. Though there has been a rising trend since 1975 but the increase is not all that large. This is because of lack of awareness among the small and household investors, poor investment climate, loss of confidence of existing investors in stock market operations and deficiencies in the institutional infrastructure.

It is extremely important for the policy makers and regulatory authorities to understand the investors' perceptions, preferences and their concerns about the financial markets and specifically on the stock market. This has become necessary on account of dramatic withdrawal of small investors from the capital market and it resulted in a virtual collapse of the capital market as a source of corporate financing after the mid-1990s. Despite great technological strides in the market's trading system, we have not yet truly recovered from this collapse.

In the light of these facts, an attempt has been made in the succeeding paragraphs to revisit the studies made by researchers in the past on various aspects of securities markets in general and the investor perceptions and other related aspects in specific. This is being done with a view to identify the gaps in the past research on investor preferences and their behaviour at market place, and necessarily to provide a direction and lead to the present research work undertaken by the researcher.

The RBI conducted three sample surveys in 1959, 1965 and 1978 to analyse the ownership pattern of shareholdings. A comparison of the findings of these three surveys indicated that during 1959 to 1978, the number and proportion of individual shareholders showed an increasing trend, but in terms of the paid-up value by individual shareholders, the percentage declined. It indicated that in spite of an increase in their number, the individual shareholders lost their share in corporate shareholdings in favour of institutional investors i.e., lDBI, IFCI, ICICI, UTI, LlC and GIC whose shares showed an increasing trend.

The Bombay Stock Exchange (BSE) has conducted a study on the present position of stock market in India. The study covered 1847 companies out of 2275 companies listed with Bombay Stock Exchange as at the end of March 1989. The survey found that out of the 1847 companies studied, only 26 companies have more than one lakh shareholders each. While another 45 companies have shareholders ranging from 50,000 to 1, 00,000 and in other cases it is much less.

Rao and Bolehave examined the real rates of return of equities in the Indian market for the period of 1953-87. They concluded that equities provide only a partial hedge against inflation while the long-term real rates of returns are positive, during periods of extraordinarily high inflation; the real rates of return are negative.

A study conducted by SEBI in association with National Council of Applied Economic Research (NCAER), has thrown up several interesting facts on people's investment preferences. With the objectives of sketching the investor profile and investment preferences and estimating State-wise distribution of investor households and investors, the survey is conducted from a stratified sample of 2,88,081 households across the country. The sample was classified on demographic and non-demographic parameters of income, education, occupation, and so on. The survey estimated that 7.4 percent Indian households totaling 21 million individual investors have invested in equity or debentures or both in 2000-2001. Rural households appear to have preferred bonds to equity. The urban-rural division of the equity households is 70 percent, 30 percent and 55 percent of the sample urban households and 45 percent of the rural households owned debentures.

The Patel Committee made a comprehensive review of the functioning of stock exchanges and make recommendations. The terms of reference are wide-ranging and included the examination of the general functioning of the stock exchanges as an integral part of the financial system. The Committee is also to suggest measures to improve overall service to the investors by members of stock exchanges. This is needed to encourage small investors, particularly in semi-urban and rural areas, to invest in industrial sector to mop up a larger volume of capital for productive investment.

The stock market has been assigned an important place in economic development through provide for potential investors, entrepreneurs and governments assembling resources which provide liquidity & improve the scheduling the activities & resources and enhance prospects of long-term economic growth. Without a stock exchange, savings & economic progress and productive efficiency- would remain underutilized. In the old days, the task of mobilization and allocation of savings could be attempted by a much less specialized institution than the stock exchanges. But as business and industry expanded and the economy assumed more complex nature, the need for 'permanent finance' arose. Entrepreneurs needed money for long term whereas investors demanded liquidity – the facility to convert their investment into cash at any given time.

2. Analysis on VUCA Environment

The United States Army War College was one of the first organizations to use the VUCA acronym, following the 9/11 terrorist attacks in 2001. Military planners were worried about the radically different and unfamiliar international security environment that had emerged, so they used VUCA to describe it. VUCA stands for:

1. Volatile – change is rapid and unpredictable in its nature and extent.
2. Uncertain – the present is unclear and the future is uncertain .
3. Complex – many different, interconnected factors come into play, with the potential to cause chaos and confusion.
4. Ambiguous – there is a lack of clarity or awareness about situations.

VUCA represents a set of challenges that individuals, teams, managers, and organizations in affected industries all have to face. Individually, these challenges can be significant, but they can be formidable when they're combined.

any people predict that volatility, uncertainty, complexity, and ambiguity are going to become more and more prevalent in the business world. To manage teams in the VUCA age, you should be aware of the changes that this kind of environment can cause.

A VUCA environment can

1. Destablize people and make them anxious.
2. Increase the chances of people making bad decisions.
3. Jeopardize long-term projects, developments and innovations.
4. Make constant retraining and reshaping a necessity.
5. Overwhelm individuals and organizations.
6. Paralyze decision-making processes.
7. Sap their motivation.
8. Take huge amounts of time and effort to fight.
9. Thwart their career moves.

3. Investor Behaviour – Influence of Emotions

There has been growing academic attention in the past decade on investors’ sentiments and their potential impact on market performance. Investor sentiment is the expectation of market participants about the future cash flows (returns) and investment risk (De Long et al. 1990). Because traditional stock market theories comprehended market dynamics under the theoretical framework of the efficient market hypothesis (EMH) and random walk theory, they did not consider investor sentiment as an important aspect. However, they failed to explain the heterogeneous behaviour of investors in the capital market. Investors’ sentiment is a vital aspect of the capital market, as it contributes to frequent fluctuations in the stock price and thus creates uncertainty about future returns on investments. In the

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past few decades, there have been radical changes in the Indian financial environment, especially in the basic structure—for example, shifting from a savings-oriented economy to an investment-oriented economy. These changes have increased heterogeneity in the composition of participants and impacted investors' risk-taking behaviour.

Figure 1: Investment Process - Roller Coaster of Emotion

Source: Credit Suisse

Volatile

Financial markets have turned volatile by a multiple over 2019. The global pandemic has hit markets in India and the world and split the investor community. Some think people are optimistic even to believe that the world would see a 'U' shaped recovery. Then some foresaw a 'V' shaped recovery and played the market. The S&P BSE Sensex and NSE Nifty movement in March 2020 was a case in point. After a 40 per cent slump, share prices have crawled back to the same levels.

Uncertain

The policy uncertainty back in 2019 seems like no uncertainty at all. Just read the commentary from experts. Very few can tell you what lies ahead. Someone says the US dollar would crash and someone else pitches for the flight to safety in the US dollar-denominated assets. Analysts have a wide range of assessment for India's growth in 2020-21 and 2021-22. Some say the economy would contract by as high as 10 per cent and bounce back to 7 per cent growth in 2021-22. Riding on that assessment, stock market analysts predict a fall of 10-15 per cent in profit growth of Nifty

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companies and a jump of as high as 55 per cent in 2021-22. It is tough to make sense of these numbers and believe that things would move that direction. That makes direct stock market investing tough. However, passive investing through exchange-traded funds or mutual funds may be a way out.

Complex

It was just about waiting for the election results day to make things simple from a policy standpoint. The present situation takes the complexity of the government policy to a new level. Ahead of the pandemic, the government was trying to pitch India as an alternate destination for manufacturing as the US-China trade war waged. As the epidemic hit the world, the government is out pushing India as an investment destination. It hurriedly passed a few labour laws to enhance further the 'Ease of doing business' standing in the world.

However, with tax and non-tax revenue in a free fall, the government has limited headroom to provide any financial incentives to new businesses. The present need is to put cash in the hands of the people and companies. However, the government is unable to do so due to fiscal constraints. It has resorted to making changes in compliance rules and providing relief on tax compliance and loan repayments. While it is prudent from a government finances standpoint, it may not be enough. It would help if you watched out for the interest rates as they affect your finances directly.

Ambiguous

It was all about the ambiguity in the government policies ahead of the 2019 general elections and after the event. Today, the term is much more clear than ever before. One example is enough to explain it. There was a lot of apprehension about employees 'working from home' before the pandemic. As the number of infections raged, white-collar workers swiftly made a move. So much so that businesses are now in a fix. Many have found employees turn more efficient than before. While you cannot replace an office with all employees working from home at large listed companies, you have to incorporate new policies to make that a standard procedure. There is a lot of ambiguity out there about 'workplace' rules at home.

Conclusion

Especially in the context of decline in the participation of small and household investors in the primary market operations, withdrawal of investors from the capital market, diversion of household savings into safer investment avenues like bank deposits, real estate, and unproductive assets like gold and silver, it becomes all the more important to study and analyze the investor awareness, perceptions and preferences of various investment avenues available to them in the securities markets. Under the influence of an extreme market environment, investor sentiment will fluctuate significantly; the process will be infected to a certain extent, the small and household investors constitute a vital segment of the Indian securities market and greater understanding of the perceptions, preferences, and behaviour of these investors is very vital in the policy formulation on development and regulation of the securities market to ensure the promotion and protection of interests of small and household investors. Investors can expect to earn good returns from equity if they stay invested for a fairly long period of time. They should avoid both Greed (buying due to fear of missing out) and Fear (selling in panic) during VUCA environment prevailed across the globe.

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