



# Trends in Retail Investor behaviour in the Stock Market post COVID-19

**Dr Poonam Bewtra**

**Associate Professor**

**Department of Commerce**

**Janki Devi Memorial College**

**University of Delhi**

## ABSTRACT

India and the world saw its biggest disruption in the financial economy since the financial crisis of 2008 because of Covid 19. The Indian stock exchange is a very important component of the Indian financial system. The purpose of the paper is to study the behaviour of retail investors in India post covid 19. The paper tries to examine the changes and analyze the reasons for this change.

**KEYWORDS:** Retail Investor, Stock market, Foreign Institutional Investors

## INTRODUCTION

The impact of COVID-19 has been unprecedented across the World. It has affected every country to various degrees. In this interconnected world, India is no exception. Every sector in India has been impacted, whether financial, healthcare, energy, auto, real estate tourism, dining, leisure & entertainment.

The global economy has experienced the biggest disruption since the 2008 Financial Crisis. The impact on Indian GDP was immense. From a 4% growth in FY 19 to 8% contraction in FY 20. With lockdowns being imposed for safety and medical infrastructure reasons during the first wave, the impact was felt on every major sector in India. As consumption was on decline, the Indian government increased public spending and RBI reduced interest rates to try to bolster the economy.

Globally stock markets fell in shock as COVID-19 spread everywhere, across Europe initially in February before heading to the United States and India. Panic selling was seen in Indian stock markets too with the benchmarks Nifty and Sensex correcting almost 40% from their January highs.

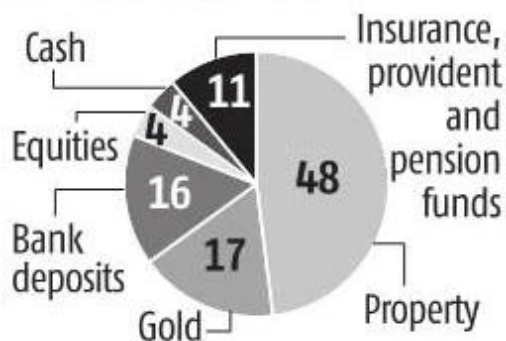
The year 2021 so far has been an exceptional year for the capital markets. There was a boom in fundraising through IPOs by many new age companies/tech start-ups/unicorns. In April-November 2021, ` 89,066 crore were raised via 75 IPO issues, much higher than in any year in the last decade. The Sensex and Nifty scaled up to touch its peak at 61,766 and 18,477 on October 18, 2021. Among major emerging market economies, Indian markets outperformed the peers in April-December 2021.(Economic Survey 2021-22)

The paper has been divided into 4 sections. Section 1 gives the background about investment in equities in India. Section 2 discusses the stock market and the retail investments post covid 19. Section 3 discusses the reasons for the increase in retail investors post covid 19. Section 4 briefly looks at the future of this market

### 1. Background – Equity Investments in India

Historically, Indians have always preferred safety over higher returns. Real estate, bank deposits and physical gold have been the prominent means of savings and investments. As of December 2020 ( Figure 1), equities only made up 4% of Indian household assets.

Indian household assets as of December 2020



Sources: Reserve Bank of India, Jefferies estimates, Central Depository Services Ltd, National Securities Depository Ltd

Figure 1

As we can see, property makes up almost half of Indian household assets. This is closely followed by physical gold and bank deposits. If we include the LIC, PF, PPF funds and cash, we find that these assets make up 96% of the net Indian household assets. If we observe closely, these all assets are thought to be traditionally safer

with extremely less chance of downside and almost zero capital risk. This leads us to believe that Indians, as a society, have preferred safe and low risk investment opportunities rather than risky high growth ones.

India, with its 1.3 billion+ people, has approximately 3.7 per cent of its population investing in equities, compared with 12.7 percent of China’s population, according to depository data on the total number of investment accounts (with an assumption of one person per account). In the US, by contrast, it is estimated that 55 per cent of the population owns equity, either directly in stocks or through a mutual fund/exchange traded fund (ETF).

This fact is visible in the figure 2 where ownership of all NSE listed companies is shown by type of investor. From 2001 onwards, promoters and FIIs have been increasing their shareholding and have consequently gotten the best returns during this tenure. FIIs had less than 10% in 2001 but have approx. 21% of the shareholding in the NSE listed stocks in 2020.

Whereas, retail holding was 18% in 2001 is now 9% in 2020. There has been gradual selling by the retail investors during the last 20 years. As we can see, domestic mutual funds have also slightly increased their shareholding over the last 5-6 years on the basis of more Systematic Investment Plans (SIP) fund flow due to awareness generated by the popular “Mutual Funds Sahi Hai” campaign.

From 2017 to 2021 in five years, equity MFs have seen inflows of around \$80 billion — over Rs 6 lakh crore, and this trend has been quite consistent and hence, sustainable<sup>1</sup>.

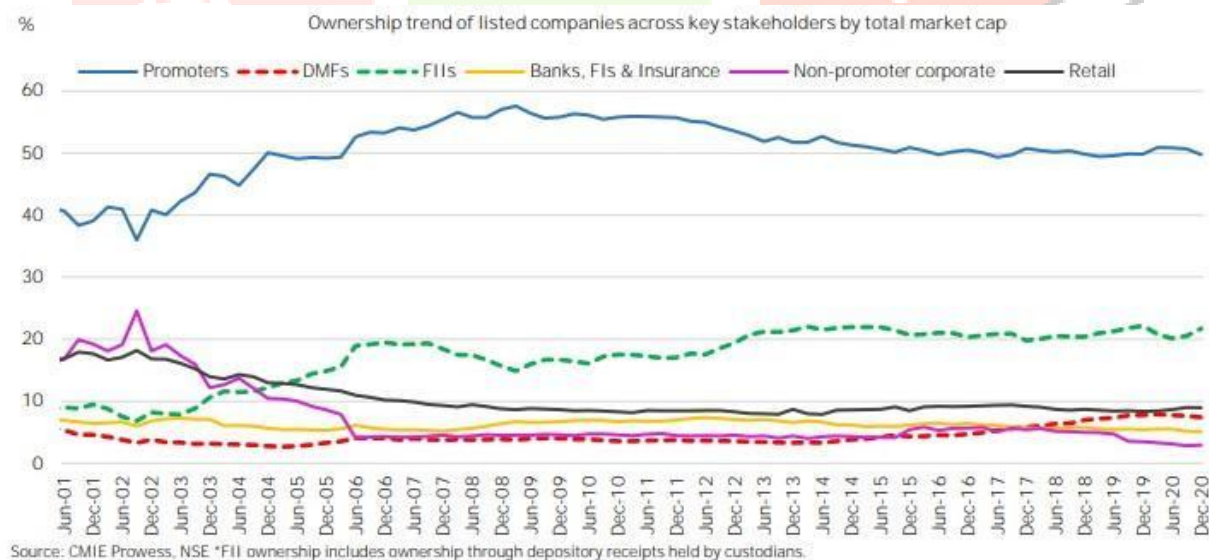


Figure 2

Source: <https://indianexpress.com/article/business/economy/rise-of-retail-investors-push-share-of-equities-in-household-assets-to-all-time-high-at-4-8-7835131/>

<sup>1</sup> <https://indianexpress.com/article/business/economy/rise-of-retail-investors-push-share-of-equities-in-household-assets-to-all-time-high-at-4-8-7835131/>

## 2. Indian Stock Markets post COVID-19

Indian stock markets have had one of their fastest and sharpest bull market rallies since the initial correction post the Covid shock. In fact, Indian benchmark indices have surpassed all major global indices since 1<sup>st</sup> April 2020 (Table 1).

**Table 1**

Index	As on 31st Dec 2021	As on 31st Mar 2020	Return
Nifty 50 (India)	17354	8598	102%
S&P 500 (US)	4766	2584	84%
Dow Jones Index (US)	36338	21917	66%
DAX (Germany)	15885	9936	60%
CAC40 (France)	7153	4396	63%
FTSE (England)	7401	5594	32%
HANGSENG (Hong Kong)	23398	23603	-1%
KOSPI (South Korea)	2978	1755	70%
Nikkei 225 (Japan)	28792	18917	52%
Taiwan Weighted (Taiwan)	18219	9708	88%

Source – All figures taken from [www.tradingview.com](http://www.tradingview.com) for each index

### Retail investments post COVID-19

We will be focusing on three broad categories — FIIs or foreign institutional investors (foreign companies investing in Indian stocks), DIIs or domestic institutional investors (Indian organisations investing in stocks) and retail investors (individuals). There is also another category of promoters — these can be Indian, foreign and the government.

The trend has been of retail investors gradually reducing their investments in equity. Before the pandemic withdrew more money than they put in, that is that retail investors were net sellers of stocks. However, 2020 changed this trend as Covid-19 and lockdowns led to investors buying stocks and equity.

Analysing the data, we find that up till 2019, retail investors were net sellers of stocks i.e. they sold more than they bought. In 2017, retail investors had a net outflow of Rs 30,500 crore. This outflow reduced to Rs 8,100 crore in the year 2018. But in 2019, it again increased to Rs 24,500 crore of net selling by these investors.

In 2020 though, there was a net inflow of Rs 51,200 crore. This trend reversed as individual investors bought much more than they sold. With stocks rising from multi year lows due to the Covid correction, more and

more investors started buying and pumping in more money. Just by the third quarter of the calendar year 2021, there was a net inflow of Rs 86,000 crore by retail investors (Figure 3). The net inflow from DIIs during the same period was only Rs 9,700 crore in comparison.

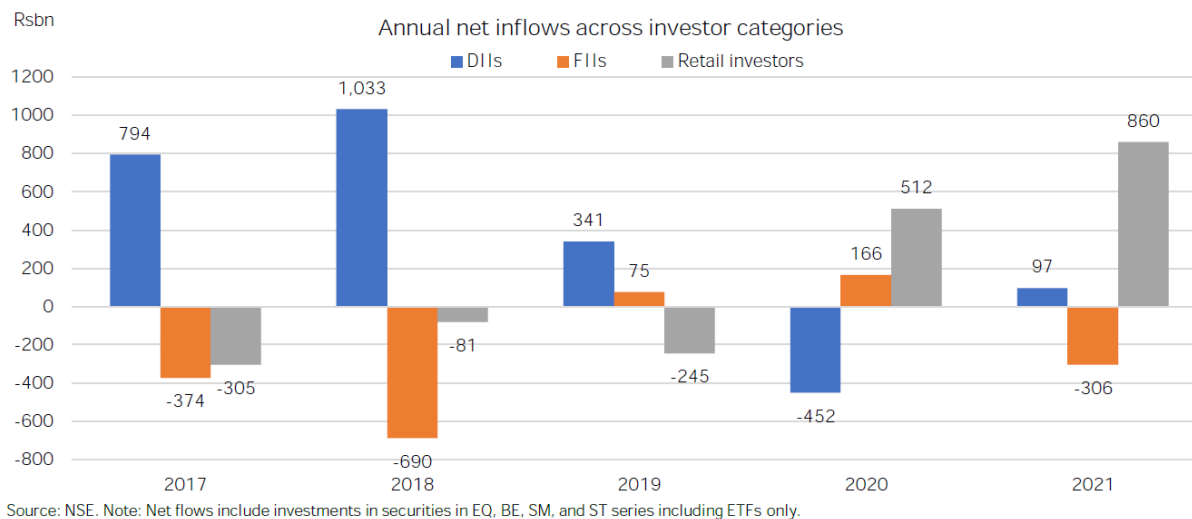


Figure 3: Retail Investors are Net Buyers in the Indian Stock Market  
Source: NSE Market Pulse, October 2021, Volume 3, Issue 10

The buying power of retail investors was the major driving force behind the stupendous rise of the benchmark indices in 2021. Indian leading benchmarks rose more than 24% in that year. Apart from the benchmark indices, the broader markets provide a better overview of the retail participation as they throng to smaller companies in the hopes of higher growth and returns. FIIs usually buy more in large cap companies due to higher free float amounts, lower risk and confidence in management.

Looking at the broader indices, the sustained buying from retail investors is evident in the midcap and the smallcap indices. The Nifty Midcap 100 was up 46% whereas the Nifty Smallcap 100 index increased by almost 60% in 2021.<sup>2</sup>

Retail investors are providing the highest volume and liquidity in the Indian stock market. According to the Market Pulse, which is the monthly review of NSE, 43% of the total turnover in the cash segment was due to the retail investors in FY 22. In FY 21, retail investors were responsible for 45% of the turnover, which is a multi-year high in terms of their contribution. As can be seen, the individual funds might be lower, but the volume of the retail investors (number of investors x amount) are moving the markets. The contribution of

<sup>2</sup> www.tradingview.com

the FIIs is significantly lesser in comparison. In the cash segment, FIIs commanded a total of 11.5% and 11% for FY21 and FY22, respectively.

This trend is frankly not dissimilar to what has happened around the world. In the United States of America during COVID-19 for instance, retail investors were responsible for almost 25% of the trading volume in mid-2020 This is 2.5 x of the 10% volume of 2018<sup>3</sup>.

The share of equities in the household balance sheet (\$11 trillion) has gone up to 4.8 per cent in March 2022, as against 4.3 per cent in March 2021 and 2.7 per cent in March 2020, as retail investors stepped up stock market investments through mutual funds and direct purchases.

### **Number of DEMAT Accounts rising**

In January 2022, total DEMAT accounts with Central Depository Services Limited (CDSL) and National Securities Depository Limited (NSDL) stood at 8.1 crore, more than double the 3.6 crore accounts at the end of March 2019. As per the data from SEBI, there was an average monthly increase of four lakh new DEMAT accounts in 2019-20. As compared to this, a staggering 26 lakh new DEMAT accounts were opened every month in the 2021-22.

First-time investors are joining the financial markets from outside the metros of Delhi and Mumbai also. There seems to be a trend of more broking and investment accounts being opened from Tier 2 and Tier 3 towns as well as villages. Investment accounts are growing fast not only in local towns and villages but also in previously untapped states such as Manipur, Assam and Lakshadweep.

Upstox, which is a trading and investing mobile app, notes that since the pandemic, there is an incremental increase in customer additions from the top 50 cities of India and not just the metro cities as earlier. Also, 80% of Upstox's customers are in the 18-36 year age bracket. There are some interesting changes in the investing pattern across regions over the last two years. But the northern and western regions of India still are the major areas when it comes to the total number of new registrations. As of June 2021(Figure 5), North India overtook West India as the region with the highest share of new investors, accounting for almost 35% of the total registrations. As compared to 2020 (Figure 4), even South India and East India saw an increase in newer registrations.

<sup>3</sup> <https://www.businessinsider.in/stock-market/news/retail-traders-make-up-nearly-25-of-the-stock-market-following-covid-driven-volatility-citadel-says/articleshow/76883395.cms>

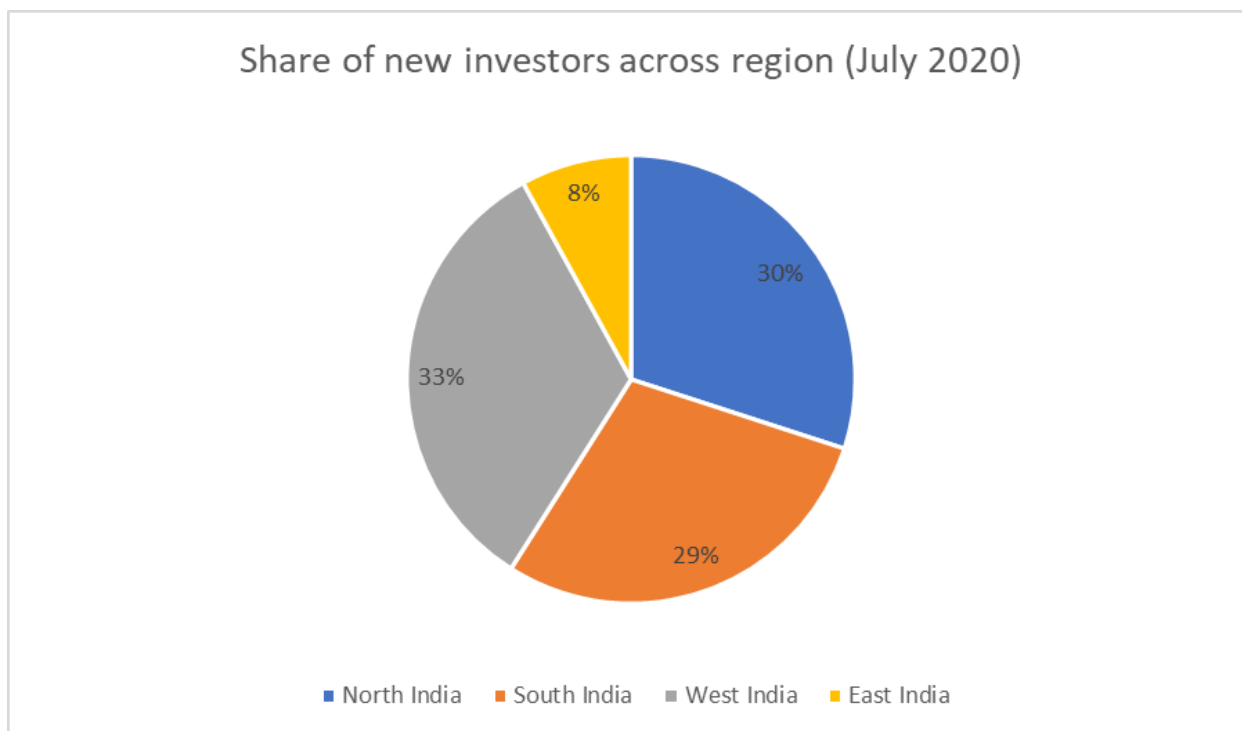


Figure 4

Source - Economic Times (<https://economictimes.indiatimes.com/markets/stocks/news/is-this-the-era-of-the-retail-investor/articleshow/87236474.cms?from=mdr>)

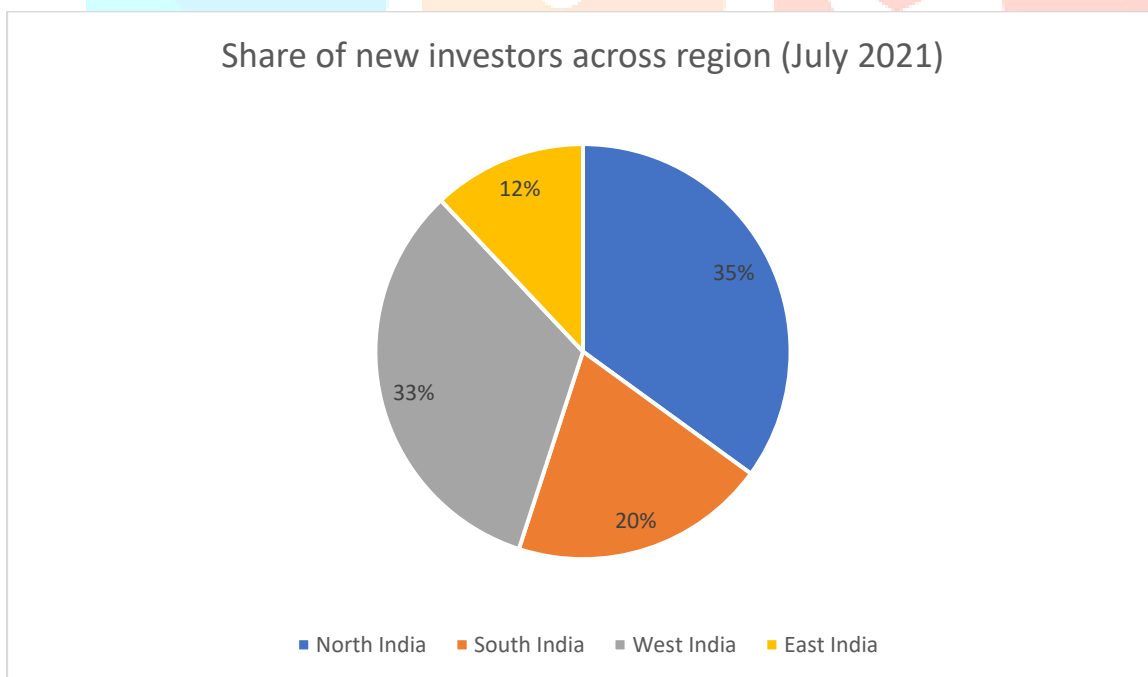


Figure 5

Source - Economic Times (<https://economictimes.indiatimes.com/markets/stocks/news/is-this-the-era-of-the-retail-investor/articleshow/87236474.cms?from=mdr>)

The market capitalisation of the aggregate ownership of retail investors has risen sharply from Rs.13.3 lakh crore in March 2019 to Rs.25.9 lakh crore in December 2021. If we divide these values by the number of DEMAT account holders at that time, which were 3.5 crore in March 2019 and 7.35 crore in December 2021, then the per account value of market cap works out to Rs. 3.8 lakh approx. in March 2019 and about Rs. 3.5 lakh in December 2021.

To get a better sense of the size of the retail investors, we add the market cap of mutual funds to that of the retail investors and divide the sum by DEMAT account holders. We get the per account value as Rs. 6.9 lakh in March 2019 and Rs. 6.2 lakh in December 2021.

So, we can see that though the number of accounts has almost doubled in two and a half years, the amount invested per each account hasn't really increased, but has in fact noticed a slight decline. This gives credibility to the theory that even though existing investors might be partly increasing their holdings, there is a sharper rise of newer investors who might be younger and thus having lesser amounts to invest, bringing down the net average.



### **Derivatives market participation also increasing**

Globally, the derivatives market was initially designed for hedging prices of commodities for buyers and sellers. But due to the popularity they enjoyed, they were also started for equities – individual stocks and the indices. They provide a leveraged means of speculation as well as hedging for investors. Derivatives in equity markets in India were started by NSE in 2000 with the launch of the index futures.

To clear up some misconceptions, retail investors are not only dominant in the equity segments alone, but they are also formidable forces in the derivatives market. When it comes to Options, for both the Index Options (Nifty & Bank Nifty) and Single Stock Options (more than 100 companies), the retail investors have a consistently high share in the premium turnover. In both cases, individual investors commanded a hefty 34% of the premium turnover. Meanwhile, in terms of share in the total premium turnover in Index Options and Stock options, FIIs contributed 11% and 7%, respectively, in FY22. Initially thought to be too sophisticated, complicated and formidable for the regular retail investors, they are actually trading much higher volumes than was ever estimated.

When it comes to the Index futures, Nifty and Bank Nifty, 39% of the index futures market is entirely traded by retail investors. Foreign investors (FIIs) are only 15%, while domestic mutual funds are just 1%.



## Section 3

**Reasons for increasing retail participation**

- Work from Home

During the first wave of COVID-19 as India ground to a standstill with one of the strictest lockdowns in the world, a young workforce found themselves at home with nothing much to do for work. With the stock markets crashing and then recovering at a breakneck speed during this lockdown, a lot of them got enough time to study and become aware of them.

People began to realise the importance of equity investments and are beginning to attach value to them. There is a far greater knowledge about investing – different investment assets, risks and rewards, time frames, size of investments etc than earlier. Many young retail investors have seemingly gone for a diversification of their portfolio with longer time frame higher yield/higher risk opportunities over traditional investment avenues including gold, fixed deposits and real estate.

For a lot of them, stock markets were a means of an additional income at the time when their own future was uncertain. For others, it was a means of making sure their assets appreciated with time in a low interest rate environment.

In addition, a significant percentage of investors from tier 2 and 3 cities gained access to newer asset classes and means of portfolio diversification. One of the major changes in the new investment landscape has been this entry of newer investors from smaller towns and cities. After all, Delhi and Mumbai only have a limited population. But if a new idea can inspire a younger population in smaller towns and cities, then it can grow exponentially.

- The lure of easy money

We have witnessed the sharpest bull market rally in history from March 2020 levels aided by fiscal stimulus, low interest rates and cheap valuations. The sharp stock market rally in the last year has no doubt fascinated and lured in a large number of retail investors. During the period FY22, the Sensex crossed the 60,000 mark for the first time, and the NIFTY50 climbed to 18,600, completely ignoring the economic distress due to the pandemic. The last best performance by the stock market was in FY09, when it had rallied 80 percent.

From the lows of March 2020 to the recent all time high in both Nifty and Sensex in Oct 2021, the markets have returned returns of 140%+ without even a 10% correction. Since 2003, the Nifty has never had an 18-month phase where it hasn't gone through at least a 10% correction. The fact that such a phase has now

combined with the sharpest bull market has made some retail investors complacent and invest in growth companies with extreme valuations. A lot of retail investors are chasing stocks which seem to be going higher without doing proper research as they believe it is hardly possible to lose money in these markets.

- Technology

The penetration of 3G to the remotest corners of the country has helped to open up a whole new world of online access for Indians. It is difficult to estimate how important a factor the internet penetration is for the rise of retail investors, but it is one of the most prominent ones for sure. This was also due improved and effective accessibility to growing awareness, investment education, market news and of various forms of investment.

The ease with which technological developments have empowered smaller investors is truly fascinating. There are a number of mobile applications and desktop portals providing robust tools for online trading and investing. These offer transparency of funds and access to real-time price movements. Now, every process like KYC, transfer of funds to a DEMAT account, buying and selling shares, all happen with the click of a button.

This is a significant shift from the past, when real-time trade execution rarely happened, without multiple phone calls to brokers and other market members. The rise of discounted broking mobile apps such as Zerodha, Uppstox, Groww and others have provided easy low-cost avenues to trade directly and conveniently. Tech advancements have also brought us easy-to-use investment apps, while social media has provided access to keep up to date with the investment opportunities and trends. Youtube, Twitter, Telegram, Reddit, etc., are home to large and very active investor communities that are always ready to offer their market analysis and investment opinions.

### **Making our Stock Markets 'Atmanirbhar'**

In the December 2021 quarter, FIIs sold \$4.8 billion of equities whereas net equity inflows into mutual funds reached \$9.3 billion, almost double of what FIIs sold. Even in January 2022, when FIIs sold equities worth \$4.4 billion, retail flows sustained well with \$3.1 billion of inflows in mutual funds.

FIIs have been selling in anticipation of interest rate hikes which will lead to a risk off environment and reducing exposure to equities. Indian benchmark indices are trading at a premium P/E multiple compared to other emerging markets and hence, are being sold more than others.

For a long time, even though the impact of FIIs in the Indian equity market kept reducing, their inflows/outflows still instilled confidence or fear respectively, merely due to the inherent psychological prejudices. But that is now changing. A divergence has recently emerged recently where FIIs are selling and domestic investors are instead buying.

FII's have been consistently selling Indian equities since September 2021 which is rare and was last seen in 2008 when they sold equities worth ₹52,987 crore in the whole year. But in current calendar year 2022, FII selling is intense as in the first 74 days of this year, they sold equities worth ₹1,11,383 crore, according to NSDL. Despite such heavy selling, the Indian equity market has not ruptured and was a mere 9% down from its all-time high peak of 18,600.

This scenario now seems a contradiction to the general perception that Indian markets tend to go down a lot whenever FII's sell Indian stocks. This resilience in the Indian stocks is a sign of the changing dynamism of the Indian share market where even the exodus of FII's is not only balanced but exceeded by the domestic retail participants.

#### 4. What to expect now in the future?

Inflation has been in an uptrend since the last 6-8 months. When we add the impact of the Ukraine-Russia war impacting commodity and energy prices along with the depreciation of the INR against the USD, we will witness interest rates rising. The speed and scale of the increase in the interest rates is difficult to predict but it will happen without a doubt.

This higher interest rate market will lead to a correction in the stock markets as investors look for safer and higher than earlier yielding investments. Older investors have witnessed such cycles of 'Bull & Bear markets' and will react accordingly. What will be interesting to note is how this newer set of younger investors who have started post COVID-19 react to this changing scenario.

Will they panic after seeing losses for months or maybe years? Will they sell their investments at a loss? Have they taken care of diversification in their investments across industry, size and risk? Have they taken over exposure to the expensive new age growth companies which are not yet profitable?

These are the scenarios which might depend on individual to individual but looking at the trends, the SIP route seems to be consistently working for investors and should be one that they are looking at to invest during these times.

#### References

Bajaj, Sakshi (2021), "Retail Participation In Stock Markets Rising: SBI Report", <https://www.ndtv.com/business/retail-participation-in-stock-markets-rising-sbi-report-2469464>

Balwani, Shikhar, Mazumdar, Ronojoy, Acharya, Nupur (2021), "Millions of millennials are piling into India's stock market", [https://www.business-standard.com/article/markets/millions-of-millennials-are-piling-into-india-s-stock-market-shows-data-121032500065\\_1.html](https://www.business-standard.com/article/markets/millions-of-millennials-are-piling-into-india-s-stock-market-shows-data-121032500065_1.html)

Chandrasekhar C. P., Malik Sarat and Akriti, “The elusive retail investor: How deep can (and should) India’s stock markets be?” [https://www.sebi.gov.in/sebi\\_data/DRG\\_Study](https://www.sebi.gov.in/sebi_data/DRG_Study)

Economic Survey 2021-22

Mathew, George (2022), “Rise of retail investors push share of equities in household assets to all-time high at 4.8%”, <https://indianexpress.com/article/business/economy/rise-of-retail-investors-push-share-of-equities-in-household-assets-to-all-time-high-at-4-8-7835131/>

Nayyar, Dhiraj (2015), “India Stock Rally Needs More Domestic Retail Investors, BloombergView, Apr 9, 2015, available at <http://www.bloombergtview.com/articles/2015-04-09/india-stock-rally-needs-more-domestic-retail-investors>, accessed September 5, 2015.

NSE Market Pulse October 2021 Volume 3, Issue 10

Padiyath, Sneha and ManushaJha (2012), “Indian retail investors are more irrational traders: Study”, The Hindu Business Line, December 2.

Rampal, Nikhil (2021), “India’s gold & FD-loving ‘aam aadmi’ is not only shifting to stocks but also investing better”, <https://theprint.in/economy/indias-gold-fd-loving-aam-aadmi-is-not-only-shifting-to-stocks-but-also-investing-better/767785/moneycontrol.com>

Shah, Palak (2012), “Retail participation growing in market, say NSE& BSE”, Business Standard, Mumbai, December 12. Available at: [http://www.businessstandard.com/article/markets/retail-participation-growing-in-market-say-nsebse-112121200149\\_1.html](http://www.businessstandard.com/article/markets/retail-participation-growing-in-market-say-nsebse-112121200149_1.html)

Shroff, Kaushal (2021), “India’s Stock Market Swings Give Millions of New Retail Investors a Taste of the Storm”, <https://thewire.in/economy/indias-stock-market-swings-give-millions-of-new-retail-investors-a-taste-of-the-storm>

“The rise of retail investors on D-Street during the pandemic” (2022), <https://www.cnbcvt18.com/views/the-rise-of-the-retail-investor-during-the-covid-19-pandemic-12245932.htm>