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FEAR OF MISSING OUT AND HERDING BEHAVIOR AMONG RETAIL INVESTORS IN INDIA: A SYSTEMATIC REVIEW

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ABSTRACT

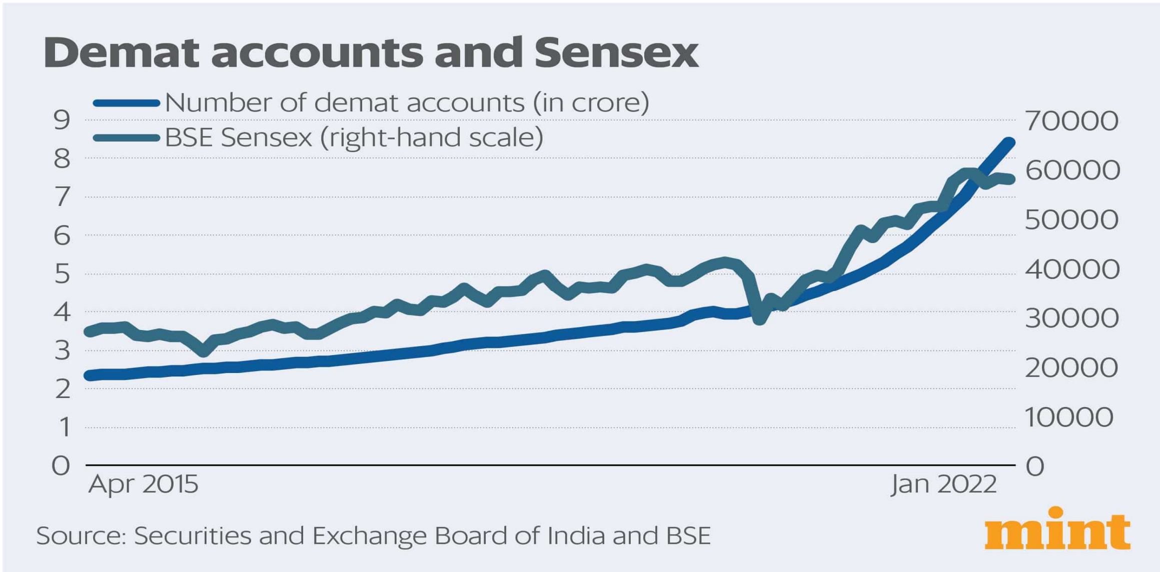
The study focuses on establishing a connection between the Fear of Missing Out (FOMO) and Herding behavior among retail investors in the Indian context. The research involves a systematic review of the existing literature, using various inclusion and exclusion criteria. Overall 40 articles were reviewed refraining from the study on the impact of FOMO and herding behavior on investment decision-making across different financial markets. While various factors contribute to investment decision-making, such decisions are often subject to irrationality courtesy of behavioral biases. Herding has been a common phenomenon in the Indian equity market. The study provides insight into the impact of FOMO and herding behavior on investment decisions and how these behaviors can affect the rationality of investment decision-making. Understanding the impact of such behaviors could help investors make more informed and rational investment decisions, thus contributing to sustainable investing practices in the Indian market. The study also suggests that FOMO and herding have been predominant factors for investing in the equity segment. However, SRI can bring more rationality among investors and can reduce the impact of such behavioral biases on decision-making.

Key Words: FOMO, Herding Behavior, Decision Making, Irrationality and Stock Markets.

INTRODUCTION

FOMO, or the "Fear of Missing Out," is a common emotion that can arise in the context of the stock market. It refers to the feeling of anxiety or regret that one might experience when they believe that others are profiting from a certain investment opportunity, and they are not. FOMO can be particularly strong in the stock market, where people can see daily fluctuations and hear news of others making significant profits. This can cause individuals to make impulsive and potentially irrational investment decisions, such as buying stocks without fully understanding the company's financials or investing too much money in a single stock or asset. While it can be tempting to act on FOMO, it is important to remember that the stock market is unpredictable and that past performance does not guarantee future results (Angel One, n.d.). It is important to conduct thorough research and to invest within one's means, rather than making emotional decisions based on FOMO. Additionally, it can be helpful to have a long-term investment strategy and to seek the guidance of a financial advisor (Wadhwa, 2022). Fear of Missing Out or FOMO is also seen and witnessed in spending behaviour of individuals especially due to the widespread of global pandemic behaviours recitation to panic buying (Megan C Good, 2021), sustainable consumption and switching to online shopping (Mukherjee, 2022). FOMO can also happen when we make decisions just because everyone else is doing it and you left out on your digital presence (Anushree Tandon A. D., 2021). For instance, people on social media posting content online on a trending topic so that we have not been left out and also females are more prone to FOMO compared to males (Saima Munawar, 2021). A very similar concept that researchers have explored in cognitive bias is herding bias. Herding behaviour refers to the tendency of individuals to follow the actions and decisions of a larger group, even if those actions and decisions may not be rational or logical (Aleem Ansari, 2021) . This behaviour can be observed in a wide range of contexts, including financial markets (Bikramaditya Ghosh, 2018), social situations (Nilesh Arora, 2022), (Anushree Tandon A. D., 2021), and animal behaviour. In financial markets, herding behaviour can lead to asset price bubbles and crashes, as investors follow the decisions of others without considering their own analysis of market conditions (Naina, 2022). Similarly, in social situations, individuals may conform to the beliefs and opinions of others in their group, rather than forming their own independent views. Herding behaviour can be driven by a number of factors, including social influence, cognitive biases, and the desire to conform to group norms. While herding behaviour can sometimes lead to positive outcomes, such as when individuals coordinate their actions for a common goal, it can also lead to negative outcomes when individuals blindly follow the crowd without considering their own rational analysis. Early in 2019 similar phenomenon was traced when the world tracked phenomenal returns in cryptocurrencies (Vijay Kumar Shrotryia, 2021). People around the world blindly invested without understanding the risk and returns of the financial instruments but to their hard luck they lost hefty money due to late entry in the Bull Run and were struck at higher price (Lowrey, 2022). The question that needs to be answered is why retail investor always get trapped? One of the possible reason why this happens to retail investors is because they are overly dependent on news, trade calls and other technical analysis to be made available to them (Ruchi Priya Khilar, 2019). Often by the time a retail investor finds out a possible breakout of stock, the stock might have already had a good run and enters into consolidation thus, leading retail investors get frustrated and exit at losses or minimum profits (Kaul, 2022). The Bull Run in 2020 and 2021 would surely have instigated many retail investors to earn higher returns for their investment. (Graph 1) shows the growth in Demat account in recent years and also the growth in SENSEX.

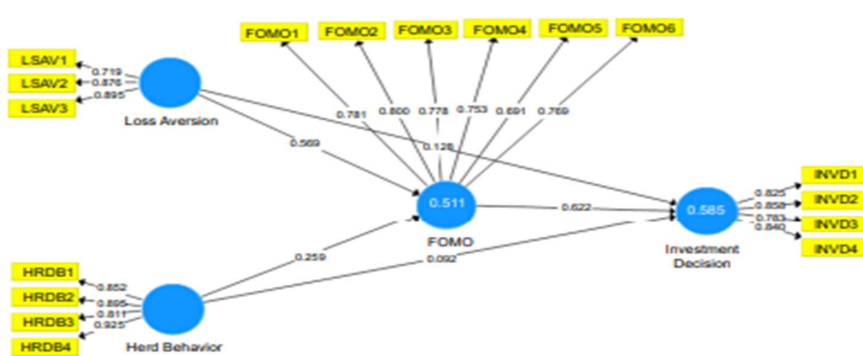
Graph 1. Growth in Demat accounts and SENSEX



Source: (Kaul, 2022)

The growth in the financial markets and widespread of social media creating awareness about investing and off course higher returns are eye candy for any person. Post pandemic herding and bubble has been witnessed prominently (Tabassum Khan, 2022). The premise is that stock returns can be predicted by market frictions like transaction costs, taxes, and volatility. The underlying idea is that when there are many trading frictions, it leads to a greater risk, which in turn causes investors to anticipate a higher return (Chandra, 2020). Few researchers have worked towards establishing a relationship between FOMO, Herding and Loss Aversion (See Figure 1). All the factors in the study were significant and hence adds to the prevailing work and knowledge that Herding, FOMO and Loss aversion are interlinked to each other in pre or post phase of investments. Few of the studies have also found that herding has been highly seen on Mondays when global markets open and lesser on Wednesday due to weekly expiry on Thursdays (Udayan Karnatak, 2021).

Figure 1. Proposed Model for establishing connect between Herding, FOMO and Loss aversion



Source: (Shilpi Gupta, 2022)

The work of (Shilpi Gupta, 2022) provides quite meaningful and future prospective insights for further researchers. FOMO indeed has some certain influence on investing decisions. Another factor that lead to herding is societal peer pressure or community investing behaviour that's because most of us feel at ease and at rest with our decision when we follow others' lead. Hardly everyone can be mistaken simultaneously. Right? (Mediawire, 2021). Not just community investing and trading decisions are also influenced by market based news and calls (Saurabh Kamal, 2022) also retail investors have a propensity to engage in excessive trading out of concern of lacking investment information and convenience as a result of smartphone news. (Atul Shiva, 2020). Investors lose out on a possible profit when the stock price rises (non-gain). Investors prevent a possible loss when the stock price drops (non-loss). Investors who experience non-gains react more negatively to trading limitations, despite the fact that both non-gains and non-losses are hypothetical since they miss out on higher profits (Timothy Potsaid, 2022). Goal based desires like capital gains, abnormal returns on investments can create intentions to invest however, and disciplined investing is based and driven by habits (Sunderarajan Sourirajan, 2022). It's been evident that retail investors herd but how about institutional investors? Research suggest mixed signals of presence of herding at institutional investors level. (Ganesh R, 2019) Suggests absence of herding meanwhile (Paramita Mukherjee, 2022) suggest that in Bull Run they behave rationally and some traces are evident during the bear phase of the market at the institutional level. The number of research articles pertaining to the institution level herding is minimal and there lays future scope of research. Investment decisions and motivations are under scrutiny due to individual biases, risk behaviour, and a cluster of different behavioural biases (Anurag Shukla, 2020), which are manifested as various factors that affect one's investment choices (Shalini Kalra Sahi, 2012), (Saloni Raheja, 2019), (Pardhasaradhi S, 2011).

Research Method

Figure 1. Literature Review Process

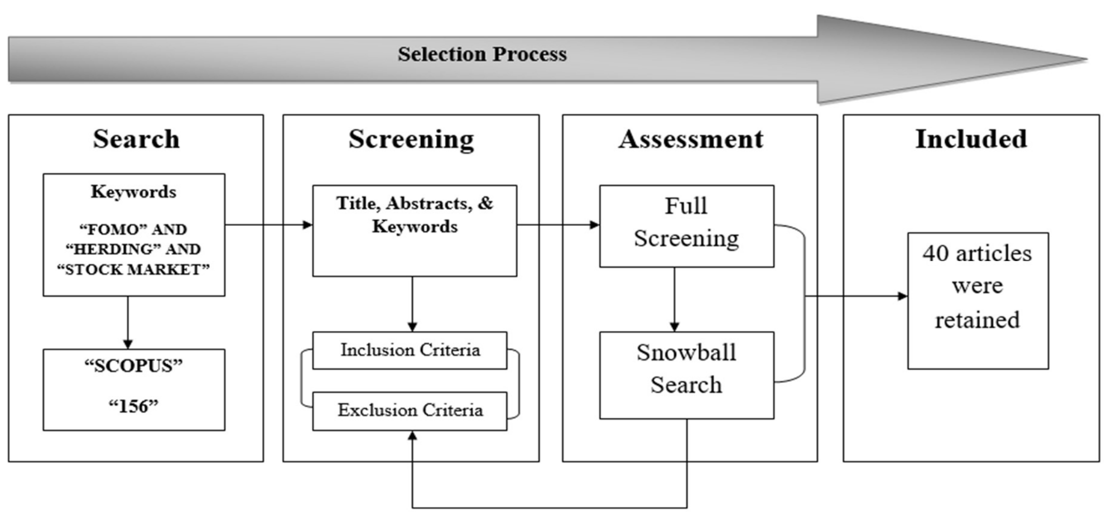


Table 1. Screening Criteria

Inclusion Criteria	Exclusion Criteria

Research articles from journals	Book Chapters and conference proceedings
Language : English	Any other Languages
Location: India	Any other Country
Peer Reviewed	Non Peer Reviewed, Articles from Predatory Journals and publications.

The research started with minutely searching for Scopus listed articles from the data base using keywords and limiting to India in country origin. Few of the research papers were not located due to different author and indexed keywords those were found using snowball sampling via cited references in the research papers. One of the key finding from the keyword searching is that ample research has been done in the foreign origin with context of FOMO and Stock markets. In the Indian origin there remains a wide research gap for the researchers to explore and contribute to the field of behavioral finance. Another concept that has been actively researched is socially responsible investing which promotes investors' values like collectivism and biospheric values, biases like social responsibility bias and reliance on expert bias, are perceived performance from socially responsible investing (Aashish Garg, 2022), (Renu Jonwall, 2022). The relationship between the personal values of investors and their intention to engage in Socially Responsible Investing (SRI) has significant implications for companies, mutual funds, and other financial service providers. According to the study, personal values play a crucial role in shaping an individual's attitude towards SRI, and a positive attitude towards SRI can lead to an increased intention to invest in it (Manjit Singh, 2021). Socially responsible investors have the potential to shape the future of the financial market and move it towards greater financial responsibility. Their actions can contribute to raising the standards of the market and make it a more responsible and sustainable environment overall (Vishal Vyas, 2020).

CONCLUSION

The core objective of this study is to establish a connect between Fear of Missing Out (FOMO) and Herding behaviour among retail investors in Indian context. As a part of the research a systematic review of prevailing literature based on various inclusion and exclusion criteria's (refer table 1) were reviewed. India has seen a rapid growth in demat account openings in previous three years, also the bull run of 2020 has been an eye catcher among retail investors. Many factors contribute towards investment decision making such as recommendations, self/firm image personal financial needs (Muskana Sachdeva, 2023). However investment decisions are subject to irrationality. Herding has been a common phenomenon among investors on Indian equity market (Sunaina Kanojia, 2022), (Raveesh Krishnankutty, 2022), (Muskan Sachdeva, 2023). Crypto markets has been in limelight for several years' now courtesy astronomical returns, government policies and the recent crash. Traces of herding behaviour are found in crypto market (Smita Shukla, 2022). Modern day investors have multiple investment avenues however irrationality still remain the problem. With the advancement in technologies in trading and investing such as algo-trading and robo advisors for ease of trading and investing decision but these are still incapable bringing rationality in decision making and users still are impacted by behavioural biases (Ankita Bhatia, 2021). This does provoke an important question that is can herding and FOMO create rationality and sustainable investing?

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