

Chapter 6

Investor Behavior and Market Efficiency in Emerging Markets: An Empirical Study on Retail Investors

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ABSTRACT

In this chapter, we focus on the interaction between the behavior of investors and the efficiency of the market in the conditions of emerging markets. It bears merit that many investments can be made in these markets. However, they are distinctive by those challenges that change how they invest. How the markets operate is doubtful, emerging markets have quickly become an essential part of global finance and resolving conflicts (Chauhan, Ahmad, Aggarwal, & Chandra, 2019b). As these forms of investment are becoming more popular and extend into new territories the need to comprehend the contact patterns associated with the investor behavior retakes its significance.

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INTRODUCTION

Global markets that comprise the emerging markets are those experiencing a relatively high growth rate and high financial risk, they are currently the center of attraction for consumers and researchers. These markets seem to hold a lot of potential for penetration and the generation of more sales revenues and, as such, are inherently volatile and unstable. Such a comparison of the opportunity against the possible loss shows that investing in emerging markets is not a simple affair. Analyzing the intricacies of emerging markets requires going beyond basic financial theories that underlie classical approaches rooted in the efficiency of markets. This implies that there is probably a need to question current theories used to explain these special financial contexts. As highlighted previously, investor biases are essential in determining market behavior in these regions (Chauhan, Ahmad, Aggarwal, & Chandra, 2019b). The study's premise is based on the assumption that an investment's cognitive, emotional, and social aspects are the core determinants, which can significantly help in understanding the effective working of the overall structure of the market in the emerging economy. This point of view shifts the focus in analyzing market behavior from rationality and efficiency, which is somewhat limiting, to considering the research on behavior. Some Investor biases, such as overconfidence, herding, loss aversion, and others, are some of the major driving forces of the emerging financial market (Elangovan, Irudayasamy, & Parayitam, 2022b). These biases cause deviations from the rationality model of efficiency standards of the market and hence can cause inefficiency. For instance, overconfidence, which sees investors trading too often and underestimating risks, will lead to more losses (Hussain, Korkeamäki, Xu, & Khan, 2015b). This chapter focuses on the objective of understanding the mechanisms that link the behavior of the investors and their cognitive biases to the behavioral outcomes in the emerging market, thus, disentangling the psychological perspective of the investors' decisions. Investor behavior is critical in determining market outcomes such as enhancing economies. It is, therefore, essential to note that the sale or purchase of any form of securities by an investment individual thus, whether institutional or individual is likely to impact on prices of the assets, trading volume, or even the state of the entire market (Elangovan, Irudayasamy, & Parayitam, 2022b). Nevertheless, often they have such decision-making influenced by cognitive and behavioral biases that affect how and what factors lead to distortions of the markets. This chapter systematically seeks to investigate how these biases affect the capital market's efficiency by examining the extent to which they are present among the investors of the emerging processes market. Cognitive biases discussing overconfidence, anchoring, or, more broadly, availability heuristics can cause the investor to misinterpret the available market information, resulting in investments being made poorly (Hussain, Korkeamäki,

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