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Title of the Study : EMH AND BEHAVIOURAL FINANCE – A STUDY TO EVALUATE THE WEAK FORM OF MARKET EFFICIENCY OF INDIAN STOCK MARKET

Abstract

Forecasting of the stock prices have been extremely fascinating area for the researchers. Determination of stock market efficiency is a crucial concept in determining the performance of stock market and effectiveness of asset prices. The concept of "Efficiency" portrays a market situation in which all pertinent information is confiscated in to security prices as soon as it arrives at the market place. Efficiency gives birth to many forecasting techniques and verifies their optimality as per the given information set. To explore forecasting techniques, the researchers work on determining predictable forecasting sequences and patterns so that investors can exploit opportunities to bag greater returns. But due to non stationary patterns in the time series data, the discovery of new formal tests and forecasting technique has become more complicated. Most of the early studies in stock markets were demeanour by statisticians and focused on the question that whether stock markets pursue some pattern or they follow a random walk.

The worth of psychology in finance is deliberately apparent, both as a contributor in stock market fluctuations and as an authority which support in directing individual investors. There are numerous academicians and practitioners who support the convincing role of human emotions and cognitive errors in financial decision making and consider it as a unique

category of study. Many behavioural finance devotees consider knowledge of psychological biases, an indispensible factor in attaining success in investment arena.

The study recalls the concept of optimal investment portfolio which lies on the efficient frontier. The study focus on understanding the irrational behaviour of investors which contributes in the movement of efficient portfolio, a little up and down of efficient frontier. Keeping in view, the movements of stock prices after the explosion of technology bubble, the study of irrational investor's behaviour becomes important to understand. In "Irrational Exuberance" a famous book by Shiller which reached the bookstores a few days before 1990s market peak, he counselled investors that market prices of securities have reached too high and investors will be really disappointed with future market performance.

In 1970s, the standard finance theory of efficient market hypothesis was well accepted by a number of academicians and professionals. But later on, many researchers and practitioners contradict efficient market hypothesis with the help of stock market anomalies. The existence of these anomalies gave birth to irrational markets caused by irrational behaviour of investors. From here, the concept of "Behaviourally Biased Investor" arises in contradiction to "Rationally Economic Investor".

The present study aims at identifying the role of cognitive and emotional biases in transforming the efficient market into irrational market due to existence of stock market anomalies i.e.. Calendar Anomalies, Volatility Based Anomalies and Technical Anomalies.

The results of the study confirms inefficiency of stock market and various biases have been cited in the study, as a reason for existence of these anomalies.