

A Study on the Risk-Taking Behaviour and Trading Patterns of New Market Participants in Chennai

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Abstract:

To analyze the risk-taking behavior and trading patterns of new market participants in Chennai with special reference to the Indian stock market. In recent decades, the easy availability of online trading platforms and increased awareness about stock market investing have encouraged many individuals to enter the market. Though, an excess of new traders begins trading with limited experience and insufficient understanding of risk management practices. This lack of preparation often affects their trading decisions and outcomes. Therefore, understanding the behaviour, risk preferences, and decision-making patterns of new market participants has become increasingly important. The study follows a quantitative research design and is based entirely on primary data collected through a structured questionnaire. The data were obtained from new market participants who are actively involved in trading activities in the Indian stock market. A purposive sampling technique was adopted to identify respondents who had recently entered the market, and a total of 50 respondents were included in the study. The questionnaire was designed to gather information on trading behaviour, preferred trading instruments, frequency of trading, use of leverage, stop-loss practices, capital allocation, and behavioural aspects such as emotional decision-making and risk perception. The collected data were analysed using statistical tools, including percentage analysis, tabulation, and graphical representation, to identify common trading patterns and risk-taking tendencies among new traders. Hypotheses were formulated to examine the relationship between trading patterns and risk-taking behaviour and to assess whether risk management practices significantly influence trading behaviour during the early stages of market participation.

Keywords: Risk-Taking Behaviour, Trading Patterns, New Market Participants, Purposive Sampling, Primary Data, Chennai.

1. Concept and Importance

In recent years, participation in the Indian stock market has increased rapidly, especially among new investors. The growth of online trading platforms and mobile applications has made trading easily accessible to the public. Many individuals enter the market with the intention of earning quick returns and improving their financial position. However, stock market activities involve uncertainty and financial risk, which require proper knowledge and disciplined decision-making. Risk-taking behaviour plays an important role in trading decisions. Each trader has a different level of risk tolerance, which influences their choice of financial instruments, frequency of trading, capital allocation, and use of risk control measures. New market participants often begin trading with limited experience and insufficient understanding of market movements. Because of this, their decisions may be influenced by emotions, peer suggestions, and overconfidence rather than proper analysis.

Trading patterns show how investors behave in the market. These patterns include the type of securities traded, trading frequency, duration of investment, use of leverage, and reactions to market fluctuations. If traders do not clearly understand the relationship between risk and return, they may follow unsuitable trading strategies that can result in financial losses. Therefore, studying risk-taking behaviour and trading patterns is essential to understand how new participants manage their trading activities. This study focuses on the risk-taking behaviour and trading patterns of new market participants in Chennai. The research attempts to identify how beginners approach trading decisions and how their perception of risk influences their trading style and financial choices.

1.1. Need for the Study

The increasing number of new traders in the stock market creates the need to understand their behaviour and risk management practices. Many beginners lack proper knowledge, which may lead to poor trading decisions and financial losses.

1.2. Influence

Risk-taking behaviour influences trading decisions, choice of financial instruments, trading frequency, emotional reactions to market changes, and capital management practices.

1.3.Statement of the Problem

Many new market participants engage in stock trading without adequate experience and knowledge of risk management, resulting in impulsive decisions and inconsistent trading patterns.

1.4.Theoretical Framework

The study is based on behavioural finance theories which explain how psychological and emotional factors influence financial decision-making. Risk perception theory explains how individuals understand uncertainty in the market. Prospect theory describes how traders react differently to gains and losses. Behavioural bias models explain the effects of overconfidence, herd behaviour, and emotional influences on trading decisions. These frameworks help in understanding the behaviour of new traders under risky market conditions.

1.5.Significance of the Study

The study helps in understanding the behavioural patterns of new traders and provides useful insights for improving investor awareness and promoting responsible trading practices.

1.6.Objectives of the Study

- To analyse the risk-taking behaviour of new market participants
- To examine the trading patterns followed by new traders
- To study the relationship between risk-taking behaviour and trading patterns

1.6.1. Hypothesis of the Study

H0: There is no significant relationship between risk-taking behaviour and trading patterns

H1: There is a significant relationship between risk-taking behaviour and trading patterns

1.7.Scope of the Study

The study is limited to new market participants in Chennai who are actively involved in stock market trading and focuses on their risk preferences, behavioural patterns, and trading practices.

2. Scholarly Review

Financial markets have seen a rise in participation from individual investors, especially beginners. Studies by Barber and Odean (2001) show that investor behavior plays an important role in trading outcomes. Many new traders enter the market without proper knowledge and depend on sources like social media, friends, or market rumors. Because of this, they often struggle to make logical financial decisions. Markowitz (1952) explained that investment decisions are based on balancing risk and return, but beginners usually fail to understand this clearly, which affects their trading performance.

Risk-taking behaviour and psychological factors also have a strong impact on trading decisions. According to Kahneman and Tversky (1979), investors do not always act rationally, especially when they face gains or losses. Many new traders show overconfidence and believe they can predict market movements, which often leads to losses. Emotional factors such as fear, greed, and panic also influence their decisions. Shefrin (2000) pointed out that these emotions can lead to poor choices like panic selling or rushing into trades. In addition, herd behaviour explained by Banerjee (1992) shows that people tend to follow others without proper analysis, increasing risk.

Furthermore, trading behaviour also depends on financial knowledge and experience. Lusardi (2008) found that low financial literacy leads to poor investment decisions. Beginners usually prefer short-term trading and may not use proper risk management tools like stop-loss orders. In India, Securities and Exchange Board of India (2018) highlighted the need for investor education to improve awareness and decision-making. Overall, previous studies show that behaviour, emotions, and lack of knowledge strongly influence new traders. However, there are limited studies focused specifically on traders in Chennai, which creates the need for this research.

3. RESEARCH METHODOLOGY

3.1. Research Design

The study adopts a quantitative research design to examine the risk-taking behaviour and trading patterns of new market participants. This design helps in collecting measurable data and analysing behavioural trends in a systematic manner.

3.2. Source of Data

The study is based entirely on primary data. The required information was collected directly from respondents through a structured questionnaire designed for the research.

3.3.Sampling Technique

A purposive sampling technique was used to select respondents. This method helped in identifying individuals who had recently entered the stock market and were actively involved in trading activities.

3.4.Sample Size

The study consists of 50 respondents. The selected sample provides sufficient data to understand the behavioural patterns and trading practices of new market participants.

3.5.Area of the Study

The research was conducted in Chennai city, focusing on individuals who actively participate in the Indian stock market.

3.6.Data Collection Instrument

A structured questionnaire was used as the primary data collection tool. The questionnaire included questions related to trading behaviour, preferred trading instruments, frequency of trading, use of leverage, stop-loss practices, capital allocation, risk perception, and emotional decision-making.

3.7.Period of Study

The study was carried out during the academic year 2024–2025.

3.8.Statistical Tools Used for Analysis

The collected data were analysed using appropriate statistical tools to interpret behavioural patterns and trading tendencies. The tools used include:

- Percentage analysis
- Tabulation
- Graphical representation

These tools helped in presenting the data clearly and identifying common trends among respondents.

3.9.Method of Analysis

The responses collected from participants were classified, tabulated, and analysed systematically. Percentage analysis was used to understand the distribution of responses, while tables and charts were used to present the findings in a simple and understandable manner.

3.10. Framework of the Study

The methodology focuses on analysing the relationship between risk-taking behaviour and trading patterns of new market participants. The structured approach ensures reliability and clarity in understanding behavioural tendencies of respondents.

4. DATA ANALYSIS AND INTERPRETATION

This chapter presents the analysis and interpretation of the data collected from new market participants in Chennai. The data were analysed using percentage analysis, tabulation, and graphical representation. The results are organised based on the objectives of the study to clearly understand the risk-taking behaviour and trading patterns of respondents.

Objective 1: To analyze the risk-taking behavior of new market participants

Particulars	Risk tolerance	Loss acceptance
Risk tolerance	1	
Loss acceptance	0.506601317	1

Table 4.1

Objective 2: To examine the trading patterns followed by new traders

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	12.96	1	12.96	17.49421	6.28E-05	3.938111
Within Groups	72.6	98	0.740816			
Total	85.56	99				

Table 4.2

Objective 3: To study the relationship between risk-taking behavior and trading patterns
Combined Tabular Analysis of Objectives

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	1.5965	0.8535	1.8704	0.0679	-0.1226	3.3156	-0.1226	3.3156
Frequent participation	0.1271	0.1736	0.7321	0.4678	-0.2225	0.4768	-0.2225	0.4768
Risk tolerance	-0.2732	0.1199	-2.2773	0.0275	-0.5148	-0.0315	-0.5148	-0.0315
Stop-loss usage	0.0249	0.1252	0.1994	0.8427	-0.2272	0.2772	-0.2272	0.2772
Confident trading	0.6172	0.2287	2.6985	0.0097	0.1565	1.0778	0.1565	1.0778

Table 4.3

4.1 Combined Objective Interpretation

Objective	Statistical Tools Used & Key Results	Interpretation	Inference in context of study
Objective 1: To analyse the risk-taking behaviour of new market participants	Correlation Analysis: Risk Tolerance vs Loss Acceptance ($r = 0.507$, moderate positive relationship)	Respondents with higher risk tolerance are more willing to accept higher losses in trading.	New traders show moderate risk-taking behaviour. However, higher risk tolerance increases exposure to losses.
Objective 2: To examine the trading patterns followed by new traders	ANOVA: Trading Frequency vs Trading Performance ($F = 17.49$, $p < 0.001$, significant)	Trading frequency significantly influences trading performance, with frequent traders performing better.	New traders follow active trading patterns focused on short-term gains. Their behaviour is driven more by trading activity than

			structured strategies.
Objective 3: To study the relationship between risk-taking behaviour and trading patterns	Regression Analysis: $R^2 = 0.381$; Risk tolerance ($\beta = -0.273$, significant), Confidence ($\beta = 0.617$, significant), Trading frequency (insignificant)	Risk tolerance negatively affects performance, while confidence positively influences it. Trading frequency has no significant effect when combined with behavioural factors.	There is a partial relationship between risk behaviour and trading patterns. Excessive risk-taking reduces performance, while confidence and disciplined behaviour improve outcomes.

Table 4.4

5. FINDINGS, SUGGESTIONS, LIMITATIONS AND CONCLUSION

5.1. Major Findings of the Study

The study identifies several important findings regarding the behaviour of new market participants in Chennai. It is observed that most new traders possess moderate levels of risk tolerance and prefer participating in trading activities with cautious investment amounts. However, a noticeable section of respondents is attracted to high-risk trading due to the expectation of quick profits.

The analysis shows that short-term trading is widely preferred among new participants compared to long-term investment. Many respondents frequently buy and sell securities to benefit from small price fluctuations. Equity shares and derivative instruments are commonly traded, while safer investment avenues receive comparatively less attention. The study also finds that risk management practices among new traders are limited. Many participants do not consistently use protective measures such as stop-loss orders and proper portfolio diversification. Emotional influences, peer pressure, and overconfidence affect trading decisions, often leading to impulsive actions. A clear relationship exists between risk-taking behaviour and trading patterns. Traders with higher risk tolerance engage in frequent trading, invest in volatile securities, and allocate larger capital amounts. In contrast, risk-averse participants prefer safer investments and adopt conservative trading strategies.

5.2.Suggestions

Government agencies and financial regulators should organize investor awareness programs to educate new traders about risk management techniques and responsible trading practices. Stock market regulatory bodies can introduce simplified educational materials to improve financial decision-making skills among beginners. Financial institutions and brokerage firms should conduct training sessions and workshops that explain trading strategies, portfolio diversification, and market analysis techniques. Providing advisory support can help new traders make informed decisions. New market participants should focus on disciplined trading by improving their financial knowledge, avoiding emotional decision-making, diversifying their investments, and using risk control measures such as stop-loss orders.

5.3.Limitations of the Study

The study is limited to a small sample of 50 respondents, which may not fully represent all new market participants. The research is confined to Chennai city, and behavioural patterns may differ in other regions. The study is based on primary data collected through questionnaires, and responses may be influenced by personal bias. Time constraints also limited deeper analysis of trading behaviour.

5.4.Conclusion

The study concludes that risk-taking behaviour significantly influences the trading patterns of new market participants. Behavioural tendencies, emotional influences, and limited market knowledge shape their trading decisions. Improving financial awareness and risk management practices can help new traders adopt disciplined trading strategies and reduce potential financial losses. The research highlights the importance of investor education in promoting stable and responsible participation in the stock market.

5.5.References

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