

Stock Market and Speculative Investment Behavior: A Study among Young Investors

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ABSTRACT

The purpose of this paper is to examine users' decision-making mechanism of speculative investment behavior and its sequential consequences in the Young Investors. A survey of 115 people, both with and without expertise in stock market speculation, was used to gather the original data. The proposed model was examined using the partial least squares technique. The results of the analysis conclude that impulsive buying and speculative investment behavior will have a significant impact on negative consequences from the investment.

Keywords: Stock market; Speculative investment behaviour; Young investors.

1.0 Introduction

Speculative investment behavior can have a significant influence on stock market investments. Speculative investing refers to buying and selling securities, such as stocks, with the expectation of making profits based on short-term price movements rather than the underlying fundamentals of the company. This type of behavior can impact the stock market in several ways: Increased market volatility: Speculative investments often involve rapid buying and selling of stocks, which can create price volatility in the stock market. Sudden spikes or drops in stock prices driven by speculative trading can lead to increased market volatility, making it difficult for long-term investors to make informed investment decisions based on fundamental analysis.

Market bubbles: Speculative investment behavior can contribute to the formation of market bubbles, which occur when stock prices are driven to unsustainable levels by excessive speculation. When investors engage in speculative buying based on short-term price momentum rather than intrinsic value, it can cause stock prices to become disconnected from the underlying fundamentals of the companies. This can result in overvalued stocks and create a bubble that eventually bursts, leading to significant market corrections and losses for investors. Herd mentality: Speculative investment behavior can also create a herd mentality among investors, where many investors follow the same investment trends or fads without conducting thorough research or analysis. This can lead to a feedback loop, where speculative buying drives stock prices higher, attracting more investors to join the trend, further driving up prices.

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However, when the trend reverses, it can lead to a sharp decline in stock prices as the herd rushes to sell, resulting in potential losses for investors who followed the crowd without considering the underlying fundamentals of the stocks. Misallocation of capital: Speculative investment behavior can result in the misallocation of capital in the stock market. When investors focus on short-term gains and engage in speculative trading, it can divert resources away from long-term investments in fundamentally sound companies with growth potential. This can impact the overall health and efficiency of the stock market, as capital may not be allocated to companies with strong fundamentals and growth prospects, but rather to speculative bets that may not generate sustainable returns in the long run.

Regulatory impact: Speculative investment behavior may also lead to regulatory intervention. Regulators may implement measures such as increased margin requirements, transaction taxes, or trading restrictions to curb excessive speculation and promote market stability. These regulatory interventions can impact the behavior of speculative investors and may have a direct influence on stock market investments.

In conclusion, speculative investment behavior can have significant implications for stock market investments, including increased market volatility, the formation of market bubbles, the influence of herd mentality, misallocation of capital, and regulatory impact. It is important for investors to be aware of speculative investment behavior and consider the underlying fundamentals of companies when making investment decisions to mitigate potential risks associated with excessive speculation in the stock market.

1.1 Understanding speculative investment behavior in the stock market investment

Speculative investment behavior in the stock market refers to buying and selling securities, such as stocks, with the primary goal of making profits based on short-term price movements rather than the underlying fundamentals of the company. Speculative investors often rely on market trends, momentum, or other speculative indicators, rather than conducting thorough fundamental analysis, to make investment decisions. Understanding speculative investment behavior in the stock market involves several key aspects:

Short-term focus: Speculative investors typically have a short-term investment horizon, seeking quick profits from price fluctuations rather than long-term investment strategies. They may engage in frequent buying and selling of stocks, aiming to capitalize on short-term market movements, rather than holding stocks for their long-term value or dividend income.

High risk tolerance: Speculative investing is inherently risky, as it involves making bets on short-term price movements that can be unpredictable and volatile. Speculative investors often have a higher risk tolerance and are willing to take on greater risks in pursuit of higher returns. They may use leverage, options, or other sophisticated investment strategies to amplify their potential gains, but also expose themselves to higher potential losses.

Emotion-driven decisions: Speculative investment behavior can be influenced by emotions, such as greed and fear, as well as market sentiment and hype. Speculative investors

may be swayed by market rumors, news, or social media trends, leading to impulsive investment decisions based on short-term market noise rather than rational analysis.

Herd mentality: Speculative investors may exhibit a herd mentality, where they follow popular investment trends or fads without conducting thorough research or analysis. They may feel pressured to join the crowd or fear missing out on potential gains, leading to a cycle of buying or selling based on the actions of others, rather than independent analysis of the underlying fundamentals.

Lack of focus on fundamentals: Speculative investors may place less emphasis on the underlying fundamentals of companies, such as earnings, valuation, and financial health, and may instead focus on short-term price movements or technical indicators. This can result in investments that are disconnected from the intrinsic value of the companies, and may not be based on a comprehensive assessment of their long-term growth prospects.

Higher trading volume: Speculative investing often involves frequent buying and selling of securities, leading to higher trading volumes in the stock market. This increased trading activity can impact stock prices, liquidity, and market dynamics, contributing to short-term price volatility and potentially distorting market efficiency.

Potential for market disruptions: Speculative investment behavior can sometimes contribute to market disruptions, such as flash crashes or sudden price spikes, especially when large volumes of speculative trades are executed within short periods of time. These disruptions can impact market stability and investor confidence.

It is important to note that speculative investment behavior can be influenced by various factors, and not all short-term trading or momentum-based strategies are speculative in nature. However, understanding the characteristics and risks associated with speculative investment behavior can help investors make informed decisions and manage their investments effectively. It is generally recommended for investors to take a long-term, diversified, and fundamentally-driven approach to investing, considering the underlying fundamentals of companies and their growth prospects, rather than solely relying on speculative strategies.

Speculative investment behavior in the stock market refers to buying and selling stocks based on short-term price movements rather than the underlying fundamentals of the company. This behavior can have a significant impact on the stock market, as noted by several authors.

According to Robert Shiller (2000), speculative bubbles can arise when investors engage in speculative trading and drive stock prices higher, even when the underlying fundamentals of the company do not support the price increase. This behavior can create market bubbles that eventually burst, resulting in significant market corrections and losses for investors.

In their study on speculative trading and stock prices, Andrei Shleifer and Robert Vishny (1997) suggest that speculative trading can contribute to market inefficiencies and distortions in stock prices. They argue that when investors engage in speculative trading, they

may not be pricing stocks based on the underlying fundamentals of the company, but rather on short-term price movements and trends.

Harrison Hong and Jeremy Stein (2003) examine the impact of herd behavior among investors on stock prices. They argue that when investors engage in herd behavior and follow the same investment trends or fads without conducting thorough research or analysis, it can lead to a feedback loop that drives stock prices higher. However, when the trend reverses, it can lead to a sharp decline in stock prices as the herd rushes to sell.

In their study on capital misallocation in the stock market, Marcin Kacperczyk and Stijn Van Nieuwerburgh (2010) suggest that speculative trading can lead to the misallocation of capital in the stock market. They argue that when investors engage in speculative trading, it can divert resources away from long-term investments in fundamentally sound companies with growth potential, potentially impacting the overall health and efficiency of the stock market.

Finally, regulatory intervention may be necessary to curb excessive speculation and promote market stability. According to George Soros (2010), regulatory measures such as transaction taxes or trading restrictions may be necessary to address the negative impacts of speculative trading in the stock market.

Thus, speculative investment behavior in the stock market can have significant implications for market efficiency, stability, and investor outcomes. Understanding the impact of speculative trading is critical for investors to make informed investment decisions based on sound fundamentals and to mitigate potential risks associated with excessive speculation.

1.2 Objectives

- To Understand the influence of various negative consequences on investment behavior of young investors.
- To study the perception of Investors

2.0 Review of Literature

“The Psychology of Financial Behavior: A Review of Literature and Research Agenda” by Deanne Butchey and Sijing Chen (2021).

This literature review provides an overview of the psychology behind financial behavior, with a focus on the impact of emotions, cognitive biases, and personality traits on financial decision-making. The authors also discuss the role of financial education and interventions in promoting positive financial behavior. “Financial Behavior and Financial Stress: A Review of the Literature” by Michael P. Keane (2021) this literature review examines the relationship between financial behavior and financial stress, with a focus on the impact of debt, income volatility, and financial shocks on individual and household financial outcomes. The author also discusses the role of financial literacy, social support, and coping strategies in mitigating financial stress. “A Review of the Literature on Financial Behavior: The Role of Attitudes and Beliefs” by Catherine Kirsch and Olga Kozlova (2020) This

literature review explores the role of attitudes and beliefs in financial behavior, with a focus on the impact of financial knowledge, risk perception, and financial self-efficacy on financial decision-making. The authors also discuss the role of social norms and cultural factors in shaping financial attitudes and behaviors. “Financial Behavior and Well-Being: A Systematic Review and Future Research Directions” by Joya Misra and Eunjung Jee (2020) This literature review provides a comprehensive overview of the relationship between financial behavior and well-being, with a focus on the impact of financial stress, debt, and financial satisfaction on mental and physical health outcomes. The authors also discuss the need for more interdisciplinary research on financial behavior and well-being.

2.1 Impulse to invest stock market

“An Empirical Study on the Relationship between Impulse Buying Behavior and Investment in Stock Market” by Tae-Hwan Kim and Ki-Soon Hwang (2020) this literature review explores the relationship between impulse buying behavior and investment in the stock market. The authors discuss the impact of various psychological factors, such as emotional arousal, self-control, and financial literacy, on investment decisions made impulsively. “Impulse Investment in the Stock Market: A Review of the Literature” by Ayman H. Omar, Ahmed A. Omar, and Ahmed S. Hassan (2020) This literature review provides an overview of the literature on impulse investment in the stock market, with a focus on the impact of various factors, such as demographic characteristics, financial literacy, and risk perception, on investment behavior. The authors also discuss the implications of impulsive investment decisions for financial well-being. “The Psychology of Impulsive Investment: A Review of the Literature” by Christine S. K. Lim and Kevin K. W. Ho (2019) This literature review examines the psychology behind impulsive investment, with a focus on the impact of emotional arousal, cognitive biases, and personality traits on investment decisions. The authors also discuss the role of financial education and interventions in promoting more rational investment behavior.

2.2 Stock market speculative investment

“Speculative Trading in the Stock Market: A Review of the Empirical Evidence” by Brad M. Barber and Terrance Odean (2014).

This literature review examines the empirical evidence on speculative trading in the stock market, with a focus on the behavior of individual investors. The authors discuss the impact of overconfidence, herding behavior, and self-attribution bias on speculative investment decisions. “Speculative Bubbles in the Stock Market: A Literature Review” by Dilip Kumar and Arunima Haldar (2019) This literature review provides an overview of speculative bubbles in the stock market, with a focus on the causes and consequences of market bubbles. The authors discuss the impact of investor sentiment, market volatility, and information asymmetry on speculative bubbles.”The Role of Institutional Investors in Speculative Stock Market Bubbles: A Literature Review” by Hanaan Yaseen and Adnan Haider (2019) This literature review examines the role of institutional investors in speculative

stock market bubbles, with a focus on the impact of institutional investment behavior on market volatility and asset prices. The authors discuss the potential for institutional investors to exacerbate or mitigate speculative bubbles.

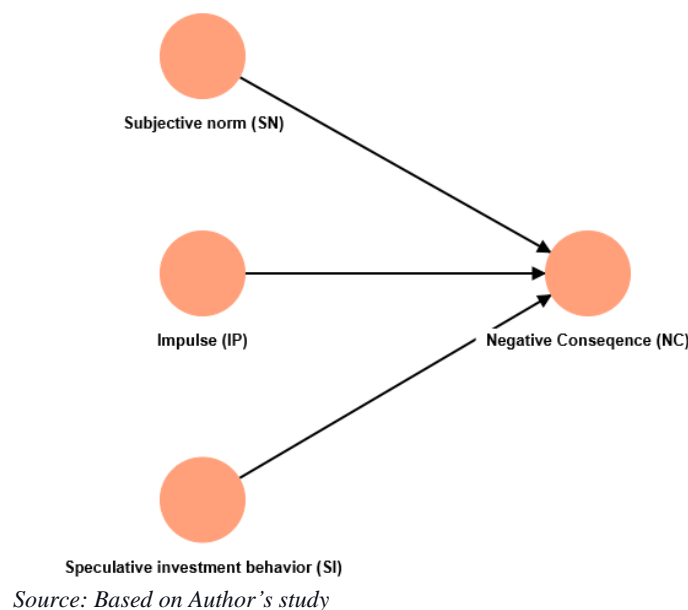
2.3 Negative consequences in stock market

“The Negative Consequences of Stock Market Speculation: A Literature Review” by Naeem Ahmed and Fazal Ahmed (2021).

This literature review examines the negative consequences of stock market speculation, with a focus on the impact of excessive trading, market volatility, and financial bubbles on individual and institutional investors. The authors also discuss the role of regulatory measures in preventing excessive speculation and reducing market volatility. “The Dark Side of the Stock Market: A Literature Review on Negative Consequences of Trading” by Elena Ivona Dumitrescu and Adina Dornean (2020). This literature review provides an overview of the negative consequences of stock market trading, with a focus on the impact of financial losses, stress, and addiction on individual investors. The authors also discuss the role of cognitive biases and emotional factors in driving excessive trading behavior. “The Consequences of Negative Emotions in the Stock Market: A Literature Review” by Emily M. Smith and Stephen J. G. Gift (2018) This literature review examines the consequences of negative emotions, such as fear and anxiety, on stock market behavior and performance. The authors discuss the impact of emotional contagion, information overload, and social influence on individual and collective decision-making in the stock market.

3.0 Conceptual Model and Hypotheses

Figure 1: Conceptual Model



H₁: There is a positive influence of impulsive buying behavior on negative consequences in stock market investment.

H₂: There is a positive influence of speculative investment behavior on negative consequences in stock market investment.

H₃: There is a positive influence of subjective norms on negative consequences in stock market investment.

4.0 Research Methodology

4.1 Measurement

To achieve content validity, we developed our measurement items based on an intensive literature review. Based on the extant innovation and IS literature, we developed comprehensive multiple-item measures of impulse, subjective norm, SI and negative consequences. Measures of stock market speculative investment behavior were also developed to assess the potential for stock market speculation (SI); it contains four general questions about overspending of time and money. Negative outcome (Caplan, 2010; Haagsma et al., 2013) was assessed by four questions about financial loss, psychological trouble, trouble in work and social activities and degree of difficulty in managing life overall. Because respondents often underreport negative behaviors and consequences and over-report positive behaviors, Age, gender, education and annual income, which have all been found to potentially influence Stock market speculative investment behaviors, were used as control variables in this study. Before conducting the main survey, a pre-test was performed to examine the reliability and validity of the instruments. The pre-test involved 30 respondents with experience investing in Bitcoin in 2017. The pre-test results led to a significant refinement and restructuring of the questionnaire. The initial face and internal validity of the measures were also established. The measures were evaluated using a seven-point Likert-type scale, ranging from “extremely low” (1) to “extremely high” (7). The structure of the measurements used, and the relevant studies are shown in Table AI (Appendix).

4.2 Sample and data collection

In this study, we targeted Stock market users with and without experience in Stock market speculation in the year 2023 in India because from 2022 to early 2023 is the heaviest period of stock market speculation in which the Nifty index rose sharply from 16822 to 18796 and then promptly fell below 16990 and Stock market trading volume in the year 2023 in India was active enough to rank eleventh worldwide. Survey questionnaires were distributed and collected for three weeks in March 2018, when the price of Stock market had just fallen after its peak in 2023. Whatsapp invitations were first sent to the targeted participants. We continued sending invitations until 120 respondents accepted the offer to participate. Respondents, who all had Stock market investment experience over the previous three months, were asked to respond to the entire questionnaire. To ensure that the respondents fully understood the survey context, an initial screening question was asked to determine

whether they had experience using and investing in Stock market. After the main survey, a total of 115 responses were received, thus, 115 responses were used in our analysis, indicating a usable response rate of 23 percent. In our sample, most respondents (91.9 percent) had Stock market investment experience during 2022 and early 2023.

5.0 Analysis

The partial least squares (PLS) method was adopted to examine the proposed model and its hypotheses. The PLS is recommended for predictive research models with an emphasis on theory development (Fornell and Bookstein, 1982). behavior, we chose PLS because of its appropriateness for exploratory science (Chin, 1998). Smart PLS version 4.00 was used to analyze the measurement and structural models. The responses were collected from the students with the minimum age of 18 years to maximum age of 24 years. Out of the total responses of 115 students, 94 students are pursuing their post-graduation degree and 14 students are pursuing under-graduation degree, whereas, 8 students completed their diploma course. A total of 90 students are from the family with annual income of more than 5 lakhs but less than 10 lakhs between 5-10 lakhs.

Table 1: Construct Reliability and Validity

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
IP	0.784	0.826	0.856	0.598
NC	0.878	0.879	0.926	0.806
SI	0.754	0.808	0.857	0.671
SN	0.789	0.942	0.839	0.572

Source: Based on author's study

Table 2: Heterotrait-monotrait Ratio (HTMT) – Matrix

NC <-> IP	0.605
SI <-> IP	0.682
SI <-> NC	0.765
SN <-> IP	0.179
SN <-> NC	0.097
SN <-> SI	0.383

Source: Based on author's study

Table 3: Fornell-Larcker Criterion

	IP	NC	SI	SN
IP	0.773			
NC	0.535	0.898		
SI	0.517	0.639	0.819	
SN	0.048	0.078	0.282	0.756

Source: Based on author's study

Table 4: VIF Values

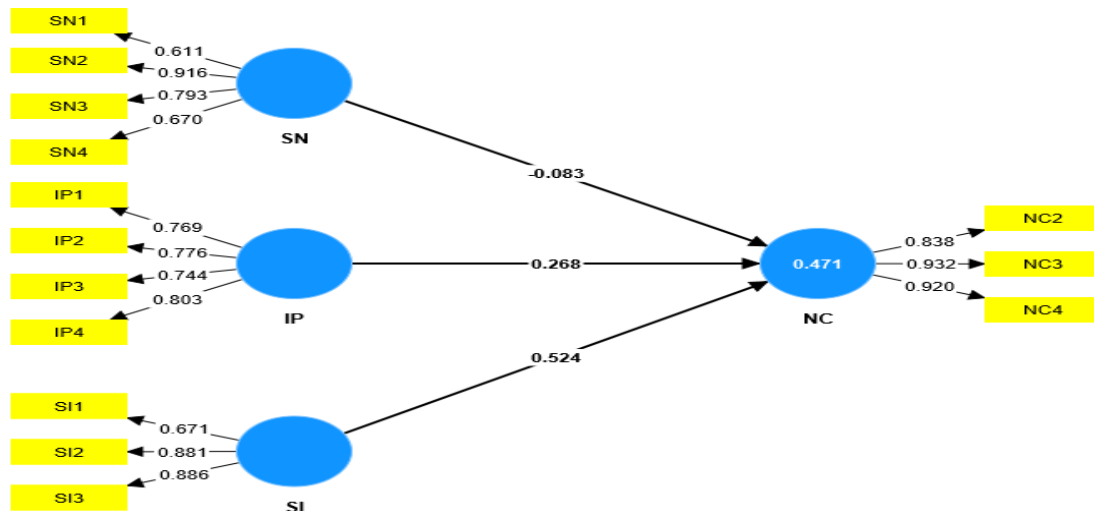
	VIF
IP -> NC	1.384
SI -> NC	1.500
SN -> NC	1.102

Source: Based on author's study

Table 5: Path Coefficient Values

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
IP -> NC	0.268	0.283	0.086	3.111	0.002
SI -> NC	0.524	0.510	0.092	5.662	0.000
SN -> NC	-0.083	-0.071	0.109	0.762	0.446

Source: Based on author's study

Figure 2: Partial Least Square Structural Equation Model Analysis

Source: Based on author's study

6.0 Discussions and Conclusion

Many experts have questioned the feasibility of the stock market despite the high expectations for its potential. In reality, the stock market is primarily used as a speculative asset rather than a substitute for money. We wondered what people's thought processes are when they regard the stock market as a speculative asset, which was not its intended usage, as Nakamoto (2008), who initially proposed the stock market to the world, did not foresee this circumstance. Do speculative stock market investments actually have a detrimental impact?

By looking into how persons who engaged in stock market speculation made decisions, this study aims to provide answers to those research issues. First, the findings of this study demonstrated that speculative investment behaviour on the stock market is largely irrational. Stock market users or investors lost self-control and were easily swayed by impulse due to the price volatility and allure of a huge return, which led them to engage in unplanned behaviour, or stock market speculation. We used the dual-systems concept, which contends that two different systems (i.e., reflexive and reflective) fight to influence people's behaviour, to explain stock market speculative investing behaviour. The outcomes of this study empirically show that speculative investment behaviour is a result of an imbalance between the two cognitive systems. Second, this study discovered that the combination of a high impulse and a lack of self-control underlies speculative investment behaviour in the context of the stock market.

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