NEW EQUITY CULT

Young Retail Investors Become A Force to be Reckoned With

Millions of first-time investors flock to the stock market to try their luck as the bull run continues in 2021

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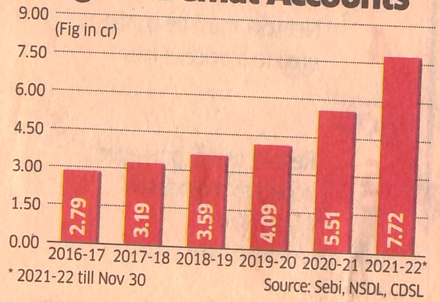
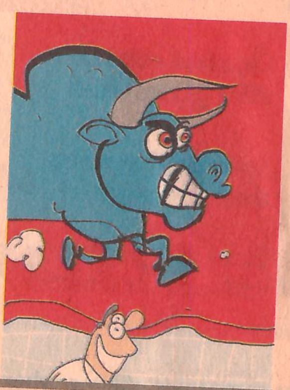
Surge in Demat Accounts



* 2021-22 till Nov 30

Source: Sebi, NSDL, CDSL



Mumbai: Retail investors in 2021 exerted influence over India's equity market like never before. An army of amateur investors — led by savvier 20- and 30-somethings — bought and sold shares frantically during the year as the bull run gave them an opportunity to make money in stocks at a faster pace than traditional asset classes.

Jithish Raj, a 29-year-old executive with a Bengaluru-based gaming firm, took the plunge into stock trading in January through a discount brokerage. Armed with ₹30,000 and tracking alerts, he traded fast and furious, growing his initial investment to almost ₹2.2 lakh in less than a year.

"I came in thinking that if I lose, it will only be ₹30,000. But what I have made is much more than I ever expected," said Raj, who now wants to use part of his incremental trading gains to buy long-term winners. For that, he has started another demat account with a large broking firm.

Raj is among the millions of first-time investors who have flocked to the stock market to try their luck. Investor account openings reflect this frenzy. On November 30, total demat accounts opened were a record 77.2 million compared with 55 million on March 31. Account openings this time round have been more widespread than during previous retail investor booms, broking firm officials said.

"Studies are showing that 70% of the new account openings are by millennials (born between 1981 and 1996) especially from Tier 2 and 3 cities," said Prasanth Prabhakaran, MD, Yes Securities. "These investors are tech savvy, fast learners and are keen to pass on information."

As in the past, the strong bull market has been the key factor that drew individuals to the stock market in hordes. With several small- and mid-cap stocks more than doubling in a matter of months, many investors considered locking money into fixed deposits at 5-6% a suboptimal mode of allocating money. One of the biggest beneficiaries of the retail rush has been the primary market with initial public offerings (IPOs) touching a record high in the year 2021. As many as 63 companies floated IPOs this year, raising ₹1.19 lakh crore, according to Prime Database.

"In the past on multiple occasions, increased retail participation has followed high returns," said Prashant Jain, CIO, HDFC Mutual Fund. "High returns over time typically also lead to rich valuations, at least in pockets and a large supply of paper is a natural outcome. This time is no exception."

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Young Retail Investors

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While a stronger stock market has always been an antecedent of heightened retail investor participation, this time a smoother onboarding process for first timers to start a demat account has been a key driver. The demat account-opening procedure, which took more than a week to conclude earlier, now happens within 30 minutes with online Know Your Client (KYC) authentication. Brokers said most individuals can start trading on the day after registration.

"Demat account opening is usually an instantaneous decision and many people trade for instant gratification," said Prabhakaran. "The faster e-KYC process feeds positively into that sentiment and has been the biggest push for a wider section of retail participation."

Industry officials said lucrative referral incentives introduced by some discount brokers have also kept the numbers ticking for firms. The retail rush has been such that firms have not been deterred by tighter Securities and Exchange Board of India (Sebi) margin norms. The norms, which require investors to bring in margin money upfront before trades, has ensured that retail traders do not have access to loans for transactions they cannot afford, reducing risks to the system. While the tighter margin requirement has kept futures and options selling out of their reach, many of these first-time traders have shifted to option buying.

"Several newcomers in the market who want to speculate are buying options because they think it's cheaper," said B Gopkumar, MD, Axis Securities. "Many of them are below 30 years and do not understand options. When they lose their capital, 95% of them do not come back."

When a trader buys an option, she shells out a premium, which is upfront money for buying the contract. The maximum loss for the option buyer is the premium paid, unlike for the option seller, who faces the risk of unlimited losses, in theory. Seasoned traders are mostly options sellers and claim option buying is a rarely profitable trade.

Retail investors, who entered the markets in the past 18 months, have not been tested yet. The bullish momentum has ensured that their investments and trades have worked most of the time in this period, but they must now gear up for challenges.

"I feel it is time to moderate expectations and reduce risk in portfolios, especially leverage if any," said HDFC Mutual's Jain.