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# Effect of Media on the Behaviour of Investors and Stocks

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**Abstract**

Media has a significant influence on the behaviour of the people. Through constant persuasion, media can change the decisions and beliefs of the public. This persuasion power is applied to the investors also. Investment decisions are tough and complicated. Investors wish for fancy returns instantly from the stock market but they are risk-averse too. This greed of instant gratification and fear of losing the principal amount compel them to seek experts' advice. Through discussions about economic policies, companies annual reports and global markets media provide the information required for investment, and through stock recommendation, it persuades the investors to invest in specific stocks. Investors under the influence of biases like herding, authority bias and context effect consciously or subconsciously fall into the trap of media experts. They make investment decisions. Their decision influence the movement and trade volume of the stocks. Biased investors decision results into the misbehaviour of stocks. This paper tries to unveil the influence of media on the behaviour of investors and stocks. It also tries to strengthen the theoretical background of the relationship between media, investors and stocks. The study has tried to evolve the mediator effect of investors' be-haviour between the media and the behaviour of the stock. The paper is highly beneficial for investors. It educates them about various biases that are triggered by media. It will also help them in identifying the influence of media on the movement of the stocks

**Keywords**: Authority Bias, Context effect, Herding, Investor behaviour, Media

## 1. Introduction

Since the inception of money, man has constantly endeavoured towards its instant augmenta-tion. People perceive the stock market as a perfect place for this endeavour. Success and fail-ure stories of stock investment allure people to try their luck in this market. Although, stand-ard financial theories assure that profitable stock return is the result of complete analysis, di-versified portfolio and rational judgement. Still, the mechanism of making the desired profit from stock investment is a complicated task. This lack of understanding about standard finan-cial theories, complicated analysis of stocks and market and ambiguity in decision making opens the path for experts and analysts to guide the naïve investors. A stock analyst or finan-cial advisor assists/suggests investors in selecting the right stocks and designing the right portfolio which can give them the desirable return. These analysts and advisors perform the complicated task of theoretical and fundamental analysis. They forecast the performance of the stock or market based on their calculations and information. These prophecies and fore-casts do not predict the future price trend. In the short run, their forecasts seem to work, but in the long run, the picture is different. This happens because they can trigger the sentiments of investors. This nudge effect can influence the investors' decision but it can not affect the fundamentals of any company. Still, the misbehaviour of stock and the stock market can be observed due to such forecasts. Change in investors' behaviour and misbehaving of stocks are interrelated.

This paper is going to unveil the relationship between investors and the movement of the stock. The following sections of the paper will throw light on the effect of media on investors and the stock market separately. Further, the paper will also discuss cases of stock recom-mendation and their impact on the behaviour of investors and the stocks respectively.

**2. Effect of Media Recommendation on Investors**

Many pieces of literature have substantiated the influence of mass media on the behaviour of the public. The media is the creator and propagator of the information. People trust media for authentic information. They trust anchors, journalists and their expert panels. This trust influ-ences the sentiments and beliefs of the public and provides access to the media personnel to trigger it according to their purpose. Emotional advertisements help in selling the product, heated arguments and debates at prime time in promoting a political view and sophisticated attitude and technological jargons on business news in investing in certain stocks. Apparently, through its constant persuasion and easy access, media affects the decisions of the public.

The media has a significant impact on the investors' behaviour It also leads to fluctuation in investors sentiment. Studies have proved that media has a stronger relation with trade deci-sion than fundamental and technical analysis

. Most investors can’t do these analyses, they don’t understand these technical computations and their association with stock prices. They need expert’s guidance to comprehend these analyses. As financial advisors are a bit expensive for this service, investors rely on the experts of business news channels for free guidance. The mass communication platforms use this situation as an opportunity to persuade investors for their benefit. These persuasions trigger some biases and compel investors to behave in a certain way.

Behavioural biases have always interrupted investors from making rational decisions. One must be aware of these biases. Awareness can protect them from being the prey of the market and media. Certain biases that play a major role in media persuasion are herding, context ef-fect and authority bias.

Behavioural biases are the result of fear of loss and greed for instant gratification. Herding is one of such bias. Investor herd in fear of being left out in making money. People herd when they trust other’s information more than their calculations. Investors trust media experts for having more information about stocks and hence they follow their recommendations. The other significant bias is Authority bias. Authority bias is the behaviour of trusting the experts' opinion blindfolded. When people perceive someone as an expert, they believe in their advice and suggestions. In the case of investment, investors perceive these news anchors and their financial advisors as experts and hence, they follow their suggestions for investment. The next important bias is Context Effect. This bias is the result of external factors. Decision making is dependent on the presentation of the facts/figures/object or service associated with it. This bias is hugely used in the field of marketing. The sequence, procedure, and atmosphere related to the presentation of any event make a significant impact on its acceptance In financial decision making, position, range and rank of options affect the choice of decision-makers. There are so many shares in the share market, but people know only those shares which are mostly discussed on the news. Those remain the highly traded stocks and attract more traders than the other stocks. To understand the bias of the context effect, the reports from NSE will be helpful.

**Table 1**:- Top 10 most active securities in April 2021

| **Security** | **No. of Trades** | **Traded Quantity (Lakh shares)** | **Turnover (₹ cr.)** | **Average Daily Turnover (₹ cr.)** | **Share in Total Turnover (%)** |
|---|---|---|---|---|---|
| **Tata Steel Ltd** | 6297239 | 5045 | 46347.95 | 2439.37 | 3.48 |
| **Adani Ports** | 6740117 | 5547 | 42838.03 | 2254.63 | 3.22 |
| **Tata Motors Ltd.** | 6261597 | 11479 | 34762.5 | 1829.61 | 2.61 |
| **HDFC Bank Ltd.** | 5137713 | 2359 | 33642.1 | 1770.64 | 2.53 |
| **JSW Steel Ltd.** | 5326300 | 5392 | 33279.37 | 1751.55 | 2.5 |

| | | | | | |
|---|---|---|---|---|---|
| **State Bank of India** | 5946848 | 9291 | 32232.6 | 1696.45 | 2.42 |
| **Bajaj Finance Ltd.** | 4065851 | 651 | 32143.68 | 1691.77 | 2.42 |
| **ICICI Bank Ltd.** | 5594907 | 5423 | 31405.21 | 1652.91 | 2.36 |
| **Reliance Industries Ltd.** | 4398258 | 1510 | 29640.06 | 1560 | 2.23 |
| **Axis Bank Ltd.** | 4429981 | 3726 | 25478.72 | 1340.99 | 1.91 |
| **TOTAL of Top Ten securities** | 54198811 | 50423 | 341770.24 | 17987.91 | 25.68 |
| **TOTAL of all the traded securities in April 2021** | 385038115 | 500847 | 1330686.78 | 70036.15 | 100 |

Source: NSE historical data

The above table represents the ten most active shares in April 2021. There were more than 1800 companies available for trading in April within 19 trading days. The total number of trades that happened in these securities stands at 38,50,38,115. Among these 1800 securities, the percentage of the number of trade by the ten most traded securities is 14.07% and these shares also constitute 25.68% of the total turnover. These shares remained the most active shares in April 2021. The percentage of the trade in these stocks shows that most of the investors preferred these stocks for trading. The choice of selecting stock from the total available stocks is influenced by the media through their presentation.

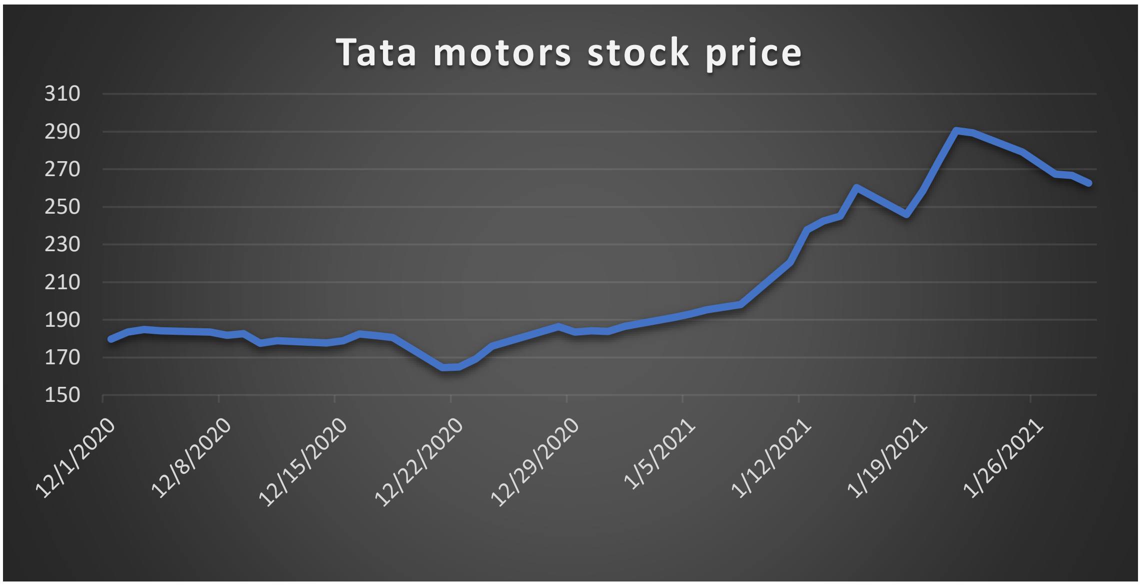
Companies Act mandate every company to publish its annual reports to the public. Business news channels or newspapers or magazines discuss the reports of only selected companies. These discussions act as an advertisement for those companies and subconsciously motivate the investors to invest in them. This is the bias of context effect. Investors generally ignore the existence of 1800 stock options against the few stocks that are constantly discussed and displayed by the media.

In bits and pieces, literature has shown the effect of media on investors through different bi-ases. It is important to understand these biases because the behaviour of investors influences the behaviour of stocks as well.

**3. Effect of Media Recommendation on the Stocks**

Mass Communication has an impact on the behaviour of stocks and the stock market. Studies have shown its impact on the movement of stock prices. Article in a business journal or newspaper about the company does mark a significant impact on the reputation of that com-pany and eventually on its stock. Reporting of companies earnings announcements influence their stock trading Information circulated on media platforms not just influence the stock trading volume, it also influences the stock prices. Sometimes this information can be a ru-mour. Rumours are also strong enough to affect the stock prices When Tesla announced to start making cars in India, somehow rumour of its joint venture with TATA motors also floated in the market. This rumour increased the stock prices of TATA motors significantly. The shares jumped almost 300% in the earlier period of January 2021 from their 52 week low. The stock continued to gain heights till the Tata Chairperson officially denied any such collaboration on 15th January 2021. The stock felt a jerk on the next trading day, but the quarterly flying result of the Jaguar Land Rover helped the company to surge again. Here is the Chart of the Tata motors:-

**Chart 1:-** Movement of TATAmotors




Source:- Author's calculation

The chart is depicting the movement of the price of the TATAmotors. There is no significant fluctuation in the stocks price in December. The surge in price is visible from the starting of January when the rumour of Tesla and Tata joint venture floated in the market. The rise con-tinued till 15th January, then it experienced a fall after the official denial of any venture by Tata motors. It gained its raise again after the positive sales growth reported by Jaguar Land Rover quarterly reports.

The effect of media on the stocks remains for a short duration. These are temporary effects. In some cases, writing research articles or reporting about companies earnings and perfor-mance can influence their fundamentals. These reports leave a long term impact on the inves-tors. However, the case of daily stock recommendation broadcasted before trading time on business news channels is different. Such recommendations influence the stock prices and result in unreasonable fluctuation in the stock prices. Again these recommendations leave an intraday impact on the prices, and volume of the stocks. This unreasonable fluctuation is known as 'misbehaviour of stocks'.

In this context, it is worth discussing the very recent case of the stock recommendations by an anchor and its influence on the behaviour of stocks. This is the case of a famous news anchor on the CNBC Awaaz, Mr Hemant Ghai. He was a very influential media person. He was the co-host of the show "Stock 20-20" that is broadcasted before the trading time on trading days. He had millions of followers on Twitter. Investors used to follow his recommendations on investment. In January 2021, SEBI found some irregularities in the trading account of He-mant Ghai, his wife and mother and barred them from trading in the Share market. SEBI also barred Hemant Ghai from making any type of stock recommendation on any media platform. In its extended report, SEBI highlighted the misuse of information done by the anchor for his benefit. SEBI also highlighted the effect of his recommendations on stocks.

The stock recommended by him and its influence on the price and volume of stocks are shown in Table 2.

**Table 2:** Table showing the recommendation and its effect on the stock

| Name of stock | | TVS Electronics Ltd. | Aptech Ltd. |
|---|---|---|---|
| Date of Recommendation | | 28-05-2019 | 09-01-2020 |
| Recommenda tion | Target Price | 220 | 190 |
| | Stop loss | 187 | 161 |
| Effect of Recommendation on the price | Variation Percentage of close to open on the recommendation | 9.57% | 11.28% |

| | | | |
|---|---|---|---|
| | day | | |
| | Avg Daily variation %age of close to open in preceding 10 days | 1.70% | (0.08)% |
| | Avg Daily variation %age of close to open in succeeding 10 days | (0.10)% | (0.04)% |
| Effect on Volume | Avg trading volume in preceding 10 days | 1,23,565 | 2,66,789 |
| | Trading volume on the day of recommendation | 19,63,831 | 24,60,792 |
| | Avg trading volume on succeeding 10 days | 2,31,988 | 3,33,784 |

Source: Calculation in SEBI report

The chart is depicting the influence of stock recommendation on the price and the volume of the stocks. There is a huge variation on the day of recommendation to the average 10 days preceding and succeeding. As discussed earlier, the impact of stock recommendation is tem-porary. Thus in the above two cases, the effect is absent in the succeeding 10 days. It is also important to mention here that no price sensitive announcement was made on the previous or same day of recommendation. So, the fluctuation is attributed to the stock recommendation. He used his influence to persuade investors to buy these stocks, investors trusted him as an expert for these recommendations and made their decision to buy these stocks. The sudden shift of investors in these stocks resulted in the irrational rise in the trading volume and the price of the stocks. The behaviour of the investors acts like a mediator between the stock rec-ommendation and stocks behaviour.

The change in behaviour of stocks has been described in the book " The Markets & The Me-dia" by T. Schuster. He has said that these stock recommendations influence the price just for one day. Prices come back to normal on the next trading day. Influence on trading volume also changes for just one day. Moreover, these recommendations sometimes don't approve the fundamentals of the companies. Parag Parikh in his book "Value Investment and Behavioural Finance" has specified that the yearly average return of most of the recommended stocks remains less than the yearly average return of the stock market.

Stock recommendation and forecasting is not an easy task. Various factors simultaneously act to influence the price of the stock. Media is also an important factor, but it is important to un-derstand that its influence is temporary. A sudden or unreasonable hike in the trading volume or price of the stock should be examined carefully as it can be a media effect only.

**5. Conclusion**

Investing in the stock market has never been an easier task. It requires a lot of calculation and analysis to choose the right stock. Various companies provide consultancy service for inves-tors. As these services are expensive, most individual investors switch to a cheaper source of guidance that is media. Print media and broadcast media both play a crucial role in investment decision making. Media has a significant impact on the behaviour of investors and stocks. Media intrigue the investors that leads to buying/selling decision of any stock. Eventually, their decision fluctuates the stock price and trading volume. It is a chain. Media influence investors behaviour, investors make investment decision leading to the change in behaviour of the stocks. This can be shown through this chart:-

In accordance with this unique integration between media, investors and stocks, here are some suggestions for rational investment decisions:-

• Investors should enhance their knowledge about the stock market before putting mon-ey in stocks.

• Investors should make themselves aware of behavioural biases for making rational in-vestment decisions.

• They should not invest in any stock on the grounds of lucrative announce-ments/suggestions made by an expert on any social or mass media platform. They should check for the fundamentals of the company like profit, EPS, dividend, P/E ra-tio etc. before investing.

• Investors should not fall for the sudden rise and fall of the stock price. These are cy-clical movements. There are so many factors that influence the stock price. They should do a proper investigation about the company before investing in its stock.

• Lastly, although the stock market is known for making money instantly, the investor must not invest their hard-earned income for instant gratification. Choose the stock wisely, and wait patiently. The stock market rewards its patient investors.

These suggestions can help any investor in making the right choices. It is important to understand that only awareness and knowledge can protect investors and the stock market from behavioural anomalies.

The paper has tried to make a theoretical background for future studies. A study including primary data to substantiate this relationship between media, investors and stock under the influence of biases can be the next project. Moreover, new biases that play an im-portant role in influencing investors' decision can be investigated.

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