

Do Indian IPO Flippers possess Disposition Bias?¹

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Abstract

The study aims to identify whether the IPO flippers in India suffers from disposition bias and drivers of such behaviour. The sample consists of 235 IPOs that got listed in BSE and NSE between the years 2010 and 2019. The data analysis findings confirm that Indian IPO flippers do indeed possess disposition bias i.e., they are willing to hold loser IPOs for a longer period and immediately capitalize on the winner IPOs. The mean and median flipping among winner IPOs is 13.09% and 21.79% respectively, higher than the loser IPOs. On further analysing the initial and post IPO performance it was found the regret aversion justifies the investor's predisposition on liquidating winner IPOs immediately after listing, but the results were insignificant in justifying the behaviour of loser IPO investors. Also, mean reversion fails to justify the investor's disposition bias behaviour.

JEL Code : G14, G40, G41.

Keywords : Behavioural Finance; Disposition Bias; IPO; Mean Reversion; Regret Aversion; NSE; India

I. Introduction

THE INITIAL PUBLIC offering is a very crucial step in the lifetime of an enterprise. It is a process of transition from a private to a public company. Although being a costly and time-consuming process, its benefits are exponential like better firm valuation, increased credibility, market visibility, exit opportunity to existing investors, etc. Being such a pivotal step, it is a widely researched area among researchers. The literature offers an exponential number of studies focusing on the functioning of the IPO markets and the behaviour of IPO investors.

IPO markets are filled with irregularities which further feeds the curiosity of researchers to decode them. One such anomaly is the abnormally high

¹ Presented at IIF International Research Conference & Award Summit (Nov.-Dec. 2021)

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Submitted November 2021; Accepted August 2022

6.1. *Implications of the Study*

The current study has implications for issuers and regulators. The key to avoiding disposition bias is to drive investors towards logic rather than emotions driving their investment decisions. Issuers can provide better disclosure of the company future growth prospects to facilitate investor's investment decisions. An attempt to reduce information asymmetry can also help increase investors' confidence in their decision-making ability. On the other hand, regulators can boost investors education by hosting workshops and seminars dedicated to helping investors make rational decisions. Also, too much flipping in the initial stage of IPO can have detrimental impact on the future performance. Thus, regulators must promote aftermarket stabilization activity like Green Shoe Option to provide immediate market support and protect the interest of IPO investors.

6.2. *Limitations and Scope for Future*

The present study has just touched on the extent of flipping in Indian IPO market. There is still a great scope of research with respect to different determinants of flipping with respect to Indian market which can be of great help in decoding IPO market trading behaviour. Also, the study is confined to only a single behaviour bias i.e., disposition effect because a quite a number of studies in other countries have signalled at its presence among flippers. However, future studies can explore other biases concerning IPO flipping like heuristics representation, noise, overconfidence biases, etc.

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