# INTERVIEW: PARAG PARIKH

## 'Its all about understanding emotions at work while investing'

*A stock market is not made of machines; it is made of human beings dealing with each other. Investing is also a very personal decision driven by human emotions. In this light, simply using numbers may not be a good idea. Parag Parikh, chairman of Parag Parikh Financial Advisory Services and author of the book Stocks to Riches, and easily a pioneer of behavioural finance in Indian stock market, spoke with* **Akash Joshi** *of* The Financial Express *on the utility of this field of study. Excerpts*

**What exactly is behavioural finance and how can it be used by investors?**

See, logically speaking, one plus one is equal to two. However where human emotions and psychology are involved then one plus one can be anything. Investing is also based on emotions. There are several human emotions involved and all decisions have a psychological aspect to it. Behavioural finance is the study of human behaviour while taking these financial decisions. In other words it is the study of finance attached with human behaviour.

**How can one apply these principles?**

Well these need to be studied and it takes time to practice. It also requires a great deal of passion to understand human behaviour.

With regards to application, these are human behavioural principles and can be applied anywhere in decision making. In fact there is great progress being made in the application of behavioural finance in the world of corporate finance. I am working with some companies to help them understand how the stock options should be structured.

**What are some of the key concepts you might want to highlight?**

Most of the investing decisions are based on two basic emotions, fear and greed. People speculate about certain unanticipated events, which forces them to take a decision driven by fear or greed. The stock price keeps rising and even when investors have met their desired return target they hold on to the stock or even increase their positions with the intension of making more money. Therefore, these are the basic emotions around which various theories are built.

**What can you say about the current market state?**

I would say that, at the moment, the market is biased by overconfidence. There is good news all around and this is causing a lot of people to take irrational decisions.

Everything depends on the state of the mind. When we are happy and elated, we tend to interpret bad news with ease. On the other hand when the times are bad and there is pressure, even the best of news and developments do not have any impact. There are several times when seemingly rational people take irrational decisions.

**There is a lot of dependence on the study of heuristics. Can you throw some light on this?**

Heuristics are like thumb rules that we keep making. It can also be said that heuristics are mental shortcuts individuals take to process information. While heuristics are not completely bad, they tend to create biases and these biases can interfere with logical decision-making.

For example, when Mphasis BFL announced a tie-up with EDS of the US, I was interested in the stock. At that point of time, other analysts were not interested in the scrip. They looked at it, as if it was run by old management and were blind to the fact that the overseas partner would bring a lot to the table. This way many missed out on the gains. This is an example of a bias in 'availability' heuristic.

**Does it mean that behavioural finance practitioners are contrarians?**

Going against the common herd mentality and understanding trends better can make behavioural finance-based decisions look contrarian. But, it is not just about that, there is more to it. Using behavioural finance techniques does not mean one should discard looking at financials and other fundamental factors. Behavioural finance complements these techniques and adds more clarity.

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