



About the Author

Parag Parikh, CFPSM, is Founder Chairman of Mumbai-based Parag Parikh Financial Advisory Services. Mr. Parikh has over 25 years experience in investing, broking and advisory business. Mr. Parikh has a Masters in Commerce from Mumbai University and an alumni of the Harvard Business School having successfully completed the prestigious Owner President Program.

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Behavioral Finance is a new field of study and Mr. Parikh has been the pioneer in India to study it, draw its implications to the Indian context and suggest how a retail investor can gain from the understanding and applying the theory in investment strategies. Retail Investors are largely ignorant about the behavioral patterns and attributes while being part of the overall macro environment. To illustrate his view he takes the example of price rigging in the capital markets coming down heavily on analysts and brokers, holding them responsible for the same.

Mr. Parikh has tried to draw a clear distinction between “investing” and “trading” and goes on to say that today most of the people participating in the capital markets confuse trading practices as investing. So many people focus on a product, say stocks, and a procedure, trading, but they do not have an investment plan in place. Most people are trying to make money by what they think is investing. But trading is not investing; it is only a procedure or a technique.

In the initial chapters, he explains what investing really is, pointing that it is a confusing subject and means different things to different people & brings about the difference between investing and speculations and how people acquire speculative habits. The key to successful investing is keeping our emotions in control which is easier said than done.

The author also demonstrates his mastery over the subject of “behavioral finance” in the Chapters four to eight explaining how our investment decisions are driven by our emotions greed, fear and hope. And how these decisions may not be in our best financial interest stating that even the smart and intelligent people make big money mistakes. Behavioral Finance seeks to bridge the gap between economics and human psychology explaining how and why people and markets do what they do.

The author specifically demonstrates through the science of behavioral finance why we:

- Hold on to stocks that are crashing
- Sell stocks that are rising
- Jump in and buy stocks that have peaked in the rally
- Avoid taking reasonable risk of buying promising stocks