

# Will India too have a tale of greed, overconfidence, fear?

Parag Parikh

**L**AST week, the stock markets witnessed huge volatility as investors swayed between greed and fear. Random events and information added to the chaos. The visual media brought in all the experts, who predicted what would happen and held forth on the seriousness of the sub-prime mess (see story on page 3). The common thread of argument was: "The fundamentals are still in place and there is no need to worry about the market crash". Those who know the ways of the market know that the connections between fundamentals and stock price movements is tenuous. What drives prices, often, is the sentiment at a given point in time. If the sentiment is good—as it has been for the last three years—people are willing to pay more for the stocks than the fundamentals justify. And that is the reason for the huge surge in the stock prices.

Another common argument doing the rounds is that sub-prime lending is a US problem, and that it has nothing to do with India. But consider the basics: sub-prime lending is lending to people who are not worthy of credit. Who would do that? Individuals don't take such risks, as they would be playing with their own money, and their aim is security. The only ones who would take such risks are large faceless organisations that are dealing with other people's money. Risk as understood by a manager in such an organisation is very different from risk as understood by an individual.

How often do you get calls on your mobile phone from a bank offering you a consumer loan, credit card, car loan, home loan, or share overdraft facility? We grumble about the pesky interruptions to our routine, and blame the poor telemarketers. But it's important to see this in perspective: banks and housing loan companies are competing to increase their bottomlines. And what choice do they have in a competitive market? So they sell dreams to people and make them spend by

borrowing the money from the banks.

If the goal is to lend as much as possible, can there be proper risk management? Indian lenders are also in a mess. That is why we get to read in the newspapers about banks and lenders using strong-arm tactics to recover possessions from defaulting borrowers? Is this not a symptom of sub-prime lending?

This is basically a credit problem, but it will spill over into the stock market. We have been seeing asset inflation since the last three years; there is a feeling of richness when one sees the values of one's assets. Stock markets have yielded phenomenal returns. These real as well as paper profits have made investors overconfident about their abilities, and highly over-optimistic about the future. Investors have therefore leverage on their so-called paper profits and made mindless investments in real estate. Once the stock markets start falling and the wealth effect starts to fade, the reality of excessive leverage will start to hurt.

In the name of consumerism, we are creating a society with a future generation of debtors. We have taught them to spend so that lenders benefit. These lenders are face-

less organisations whose sole motive is to post healthy quarterly numbers. The stock markets rewarded them for doing that. There was greed all around. We mindlessly copied the US, and now we hope that the mess in US will not hurt us.

History has shown that banking problems affect the stock markets. This time, too, we will see it happen. Greed, overconfidence and over-optimism have been the behavioral traits evident in the current situation.

Parag Parikh is chairman of Parag Parikh Financial Advisory Services

**Indian investors have been feeling rich as the bourses have yielded phenomenal returns. They have leveraged paper profits and invested mindlessly in real estate**