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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

EFFICIENT MARKET HYPOTHESIS: A PRIMARY EXPLORATORY STUDY ON RELEVANCE OF INFORMATION BIAS

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ABSTRACT

Efficient Market hypothesis one of the most controversial theories about price equilibrium establishment in stock market has shown its potentiality of influencing stock markets even after generations after it has been propounded. EMH proposes information efficiency and the concept of randomness but fails to consider Informational bias in explaining the over reactivity of investors in the capital market. The diversity of investments, broker categories and the vastness of geographical distribution connected by informational technologies makes this study a must. The study explore the relevance of information bias with respect to only semi and strong form Hypothesis of EMH theory but not the weak form hypothesis which proposes historical and future share prices are independent.

KEYWORDS

Efficient Market Hypothesis**,** Information Bias, Stock price, Informational Sources.

1. INTRODUCTION

A widely accepted, acknowledged and also the most questioned theory of all times on capital markets is Efficient-Market Hypothesis which asserts the financialmarkets as "Informationally efficient" and generally believed stock markets were extremely efficient in reflecting information about individual stocks and the stock market as a whole. It was accepted as a view that when new information arises, the news spreads very quickly and is incorporated into the prices of securities without delay. The view implied, neither technical nor the fundamental analysis would enable an individual investor to achieve returns greater than those that could be obtained by holding a randomly selected portfolio of individual stocks. There are three common forms in which the efficient-market hypothesis is commonly stated—**weak-form efficiency**, **semi-strong-form efficiency** and **strong-form efficiency**. In **weak-form efficiency**, future prices cannot be predicted by analyzing prices from the past. In **semi-strong-form efficiency**, it is implied that share prices adjust to publicly available new information very rapidly and in an unbiased fashion, such that no excess returns can be earned by trading on that information.In **strong-form efficiency**, share prices reflect all information, public and private, and no one can earn excess returns.

The efficient-market hypothesis was developed by Professor Eugene Fama at the University Of Chicago Booth School Of Business as an academic concept of study through his published Ph.D. thesis in the early 1960s at the same school. It was widely accepted up until the 1990s, when behavioral finance economists started gaining importance, Investors and researchers have disputed the efficient-market hypothesis both empirically and theoretically. Behavioral economists attribute the imperfections in financial markets to a combination of cognitive biases such as overconfidence, overreaction, representative bias, information bias, and various other predictable human errors in reasoning and information processing.Alternative theories have proposed that cognitive biases cause these inefficiencies, leading investors to purchase overpriced growth stocks rather than value stocks. EMH allows the fact that when Investors faced with new information, some investors may overreact and some may underreact.i.e. Any one person can be wrong about the market—indeed, everyone can be—but the market as a whole is always right. But good no. of Critics have argued EMH combined with too much of Informational bias leads to Panicking among investors and leads to stock market crash.

2. REVIEW OF LITERATURE AND SIGNIFICANCE OF THE STUDY

Dr. RashmiSoni(2012)[1]in her published research on "Validity of Efficient Market Hypothesis in the Indian Stock Market" has opined that share prices readily discount all historical share prices and publicly available information. But it does not reflect insider information readily and therefore there is a possibility of making abnormal returns in such cases. She also opines that announcement of various information relating to the companies are not much useful for making profits.

Kent daniel and Sheridan Titman(2000)[2] of National Bureau of Economic Research in their working paper "Market Efficiency in Irrational world" opine that Individuals make systematic mistakes in the way that they process information and they also argue that in reality, individuals have limited processing ability, and hence use vague, ad hoc rules to translate the information they receive into estimates of cash flows and firm valuations and hence make mistakes out of overconfidence or under confidence or will go back to rely on technical and Fundamental alaysis.

Jeremy Grantham (2011)[3] is Co-founder and Chief Investment Strategist of Grantham Mayo Van Otterloo (GMO), a Boston-based asset management firmhas stated that the EMH is responsible for the financial crisis of 2007–2010, claiming that belief in the hypothesis caused financial leaders to have a "chronic underestimation of the dangers of asset bubbles breaking".

At the International Organization of Securities Commissions annual conference, held in June 2009, the hypothesis took center stage. **Martin Wolf**[4]**,** the chief economics commentator for the Financial Times, dismissed the hypothesis as being a useless way to examine how markets function in reality.

Paul McCulley[5]**,** managing director of Pacific Investment Management Company, has opined that the hypothesis had not failed, but was "seriously flawed" in its neglect of human nature.

In the light of above literature reviewed it is felt to go in-depth to study what is information bias, how does it relevant to stock markets with special reference to efficient-market hypothesis.

3. INFORMATION BIAS: (A REVIEW OF THEORY AVAILABLE)

Information bias is a type of cognitive bias, and involves distorted evaluation of information. Information bias occurs due to people's curiosity and confusion of goals when trying to choose a course of action.Information bias may happen due to the belief that, the more information that can be acquired to make a decision, the better, even if that extra information is irrelevant for the decision.

i. *Factorsthat can hamper the best use of information.*

a) **Familiarity.**Repetition and its resultant familiarity can be a more important factor in our belief than any kind of analysis or evidence. Unfortunately, "common knowledge" is often incorrect.
b) **Inconsistency.** Trouble applying consistent judgmental and evaluative strategies in similar cases. Information from one source will receive more favorable treatment than information from another
c) **Pressure.** Under pressure, information tends to be processed using shortcuts, simplification, and superficial analysis (stereotyping, pigeonholing, quick impressions, skimming will be used simply as a means of coping with time or action constraints.
d) **Contrast.** The mind exaggerates differences, perhaps as a means of distinguishing the items.
e) **Mental Effort.** Information that is easy to understand is much more likely to influence us than difficult, tedious, or ambiguous information.
f) **Privilege.** Rare and restricted takes on an automatically greater value and appears more credible than information that just anybody can obtain.
g) **Preconception.** Our current concerns tend to control our perceptions and interpretations of incoming information
h) **Hasty Generalization.** Generalizations on the basis of very small samples, often one or two or three instances are judged to be representative.
i) **Sequence:** information presented or received first and last given more importance than it would otherwise deserve.information arriving in the middle of a project may be unfairly discounted or ignored.

4. OBJECTIVES OF THE STUDY

a. To explore the informational sources used, priority given and biases existing among investors.
b. To explore the significant difference among trading decision before and after announcement of information

5. RESEARCH METHODOLOGY ADOPTED

a) Scope of the study: The study explore the relevance of information bias with respect to **only semi and strong form Hypothesis** of EMH theory but not the weak form hypothesis which proposes historical and future share prices are independent Hence no past data of share prices are analyzed.

b) Research Design:

Since there have been few Indian exploratory studies on Relevance of Information Bias to Efficient marketing hypothesis after generations of its proposal, the research is pursued on exploratory research design.

c) Study Population:

To analyze the extent of relevance of Information Bias to Efficient Market hypothesis in India one must consider Investor, investment brokers and the behavior of Stock market on various instances of Information based stock market bubble. Hence the study population consists of all the all the people who are in either direct contact or the indirect contact with the capital market. This is a pretty large population to cover under a exploratory study.

d) Sample size:

The size of investors, traders, swingers and brokers together in stock market is very high in India. Since detail study of opinions of all of these people towards Relavance of information is very difficult and times consuming, therefore, the study adopted convenience random sampling method and selected 22 respondents.

e) Instrument:

A questionnaire has been administered to 22 respondents to gather accurate and precise responses from respondents. Casual interaction with Investors, traders as well as brokers is also used to gather information.

f) Sources of the Study

The study based on both primary and secondary data. Primary data collected from the sample respondents by adopting convenience random sampling method through questionnaire. The secondary data collected through sources like, Published articles, reports, papers, books etc.

g) Tools and Techniques

The study uses tools like tabular method, five points scale is applied to interpret the data systematically and draw the meaningful conclusions.

6. RESEARCH FINDINGS

A) RESPONDENT PROFILE BY ANNUAL INCOME

Annual Income	Respondents	Percentage
Less than 5,00,000	6	27.27
5,00,001-10,00,000	13	59.09
10,00,001-20,00,000	3	13.63
20,00,001-30,00,000	0	0
30,00,001-Above	0	0

Source: survey data

B) RESPONDENT PROFILE BY SOURCE OF INCOME

Source of income	Respondents	Percentage
Govt. Employees	5	4.2
Employee of MNC	7	75.0
Employee of domestic company	3	6.3
Full time Investor	7	14.5

Source: survey data

C) EXPLORATORY RESPONSES ON THE INFORMATIONAL SOURCES USED

Question	Yes	Percentage %	No	Percentage %
News papers	18	81.88	4	18.18
Television	22	100	0	0
Websites	08	36.36	14	63.36
Professionals in the market	22	90.9	2	9.1%

Source: survey data

D) SOURCE WISE EVALUATION OF INFORMATION USED TO EXPLORE INFORMATIONAL BIAS

I. NEWSPAPERS (LEVEL OF AGREEABILITY ON THE GIVEN FACTORS)

CRITERIA	Agreeability			
	Always	Some times	Rarely	Never
Read Business and Financial papers	27.27%	18.18%	22.72%	13.63%
Read Business section in General news papers	45.45%	13.63%	9.09%	9.09%
Read editorial	18.18%	18.18%	31.81%	13.63%
Read editorial completely	9.09%	31.81%	4.54%	36.36%
Look at market watch	54.54%	18.18%	9.09%	0%
Search information in Newspapers before trading	45.45%	22.72%	13.63%	0%
Collect additional information from other sources	22.72%	18.18%	13.63%	27.27%

Source: survey data

II. TELEVISION (LEVEL OF AGREEABILITY ON THE GIVEN FACTORS)

CRITERIA	Agreeability			
	Always	Some times	Rarely	Never
Constantly track news from Business channels	68.18%	22.72%	4.54%	4.54%
Watch panel Discussions from market experts	31.81%	31.81%	27.27%	9.09%
Interviews with Industry experts	36.36%	31.81%	22.72%	9.09%
Complete believe what comes in television	9.09%	22.72%	13.63%	54.54%
Do you feel some information is always masked	54.54%	27.27%	18.18%	0%
Do you observe Sponsored/endorsed/ dressed up information.	45.45%	22.72%	27.27%	4.54%
Do they provide Complete information	22.72%	27.27%	31.81%	18.18%
Do you compare Information from different channels	40.90%	22.72%	27.27%	4.54%
Does Television Forecast Work In Stock Markets	22.72%	18.18%	31.81%	27.27%

Source: survey data

III. WEBSITES (LEVEL OF AGREEABILITY ON THE GIVEN FACTORS)

CRITERIA	Agreeability			
	Always	**Some times**	**Rarely**	**Never**
Constantly track news from Business Websites.	18.18%	9.09%	4.54%	4.54%
Refer informational reports form market related websites.	9.09%	4.54%	13.63%	9.09%
Do you check authenticity of articles published in these websites?	4.54%	9.09%	18.18%	4.54%
Do you visit company official websites	18.18%	9.09%	4.54%	4.54%
Do you consider reports published in official\market websites.	13.63%	13.63636%	9.09%	0%
Have seen anomalies in data published.	18.18%	9.09%	4.54%	4.54%

Source: survey data

IV. PROFESSIONALS IN MARKET (LEVEL OF AGREEABILITY ON THE GIVEN FACTORS)

CRITERIA	Agreeability			
	Always	**Some times**	**Rarely**	**Never**
Do you consider information form professionals (Market experts, Credit rating agencies, brokers & Economic research centers)	68.18%	18.18%	13.63%	0%
Do you take their advice for your final decision	45.45%	22.72%	18.18%	13.63%
Do you check authenticity of information given by them	36.36%	40.90%	13.63%	9.09%
Do they give instanious information on investment	50%	36.36%	9.09%	4.54%
Do you compare Information from different Professionals	31.81%	27.27%	31.81%	9.09%
Does their Forecast Work In Stock Markets	68.18%	18.18%	13.63%	0%

Source: survey data

E) AGREEABILITY ON FACTOR FOCUSED INFORMATION BIAS AMONG RESPONDENTS

Factor based statement on Information Bias	Level of agreeability				
	Strongly agree	Agree	Neither agree nor disagree	Dis-agree	Strongly- Dis agree
advertisements bring familiarity and prompt trading decisions	54.54%	36.36%	0%	9.09%	0%
Experience Trouble applying consistent judgment in similar cases	31.81%	36.36%	0%	22.72%	9.09%
Trading is always a troublesome activity	27.27%	40.90%	0%	27.27%	4.54%
Exaggeration of difference and overconfidence happens	45.45%	22.72%	0%	18.18%	0%
Don't want to put too much of mental effort	27.27%	36.36%	13.63%	13.63%	9.09%

Source: survey data

7. INTERPRETATION OF MAJOR FINDINGS

a) Major source of information for investment decisions are Professionals, Television medium and the newspapers. The much propagated success of web technologies and the much marketed websites of Brokers and commercial sites are yet to show their potentiality for being the most sought information source by the traders.

b) Respondent investors consider newspapers seriously, considerable percentage also reads the editorial section and market watch sections. But majority read it completely at very rare occasions. Majority of the investors generalize the information on the basis of title or the abstract printed.

c) Majority of the respondent investors constantly tack information arising out of television media, seek insights from industry experts and panel discussion, at the other hand there exists a strong sentiment of getting influenced by fabricated and masked information from this media, it is the major source which enhances familiarity and also enhances professional knowledge of traders.

d) The small amount of respondent traders who track information from websites seek them only for time purpose, majority wont check their authenticity and the reports published in these websites

e) Professionals who work in capital markets are the most sought after informations sources, even though there exists a considerable amount of bias against their opinion majority respondents do believe that their forecasts and their ability of getting insider information works for them in majority of times.

f) In all the above said information sources, there is a strong relevance of information bias from the factors such as Familiarity, generalization, want of not getting involved in troublesome decisions, inconsistency of judgment and the latency of not interested in applying too much of mental effort.

8. CONCLUSION

Efficient Market hypothesis one of the most controversial theories about price equilibrium establishment in stock market has shown its potentiality of influencing stock markets even after generations after it has been propounded. EMH proposes information efficiency and the concept of randomness but fails to consider Informational bias in explaining the over reactivity of investors in the capital market. The diversity of investments, broker categories and the vastness of geographical distribution connected by informational technologies makes this study a must. But the small group of respondents could only communicate the existence of relevance for information bias not its validity and verifiability to every corner of capital markets. Hence the researcher feels an commanding need to go in further detail as the scope of further research.

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