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# IMPACT OF STOCK MARKET FRAUDS ON TRUST OF RETAIL INVESTORS: A SURVEY BASED ANALYSIS OF STOCK MARKET

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**Abstract**

The stock markets in India are vulnerable to a variety of frauds that could harm regular investors. Insider trading is a prevalent type of fraud in which those with access to information that is not generally known utilize it to earn money off other people's money, taking advantage of ordinary investors. The fairness and integrity of the market are threatened by this kind of fraud, which also erodes investor confidence. Market manipulation is another sort of fraud, in which individuals or groups intentionally raise or deflate stock prices to give the impression that the market is active. Due to the manipulation of the information, this may lead retail investors to make bad investment judgements. Retail investors in India are severely impacted by frauds like this. They may lead to substantial financial losses, broken market confidence, and a reluctance to take advantage of upcoming investment possibilities. Further magnifying the effects of these frauds are the difficulties that retail investors may have in pursuing legal action or collecting their invested money. To safeguard the interests of retail investors and uphold the credibility of India's stock markets, regulators and market participants must be diligent in identifying and combating such frauds. 175 participants were considered as the sample size for the study. To find the outcome T test and Mean were applied.

**Keywords:** Stock market frauds, Insider trading, Market manipulation, Investor confidence, Retail investors, financial losses, Regulatory measures.

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## Introduction

Retail investors were severely impacted by frauds in the Indian stock markets. These dishonest activities, such as insider trading, market manipulation, and other frauds, undermined investor confidence, fostered an atmosphere of distrust, and reduced the willingness of regular investors to participate in the market. Financial losses, a lowered opinion of the market's reliability, and a reluctance to participate in future investing activity were some of the negative effects. To protect the interests of retail investors and uphold the credibility and integrity of the stock market, it is crucial to improve investor protection, promote financial literacy, and put in place stringent regulatory measures. Kukreja (2012) emphasized on stock market perceptions among investors in India's National Capital Region. It brought to light the considerable effect that frauds, such "insider trading" and "market manipulation," had on small-scale investors. Investor trust was damaged because of these fraudulent operations, which also affected investors' opinions of the stock market and reduced their motivation to trade. Due to a lack of honesty and justice in the market, retail investors suffered financial losses and were demoralized. This implied that the existence of such frauds led to a feeling of injustice among retail investors, which in turn led to a decrease in confidence in the market.

Yenkey (2018) assessed how social relationships influenced organizational wrongdoing, including fraud. This showed that fraudulent acts fostered a culture of mistrust among market participants. The trust-based social ties that support the stock market broke down because of the prevalence of fraud. Retail investors who depend on these connections for information and advice were particularly impacted. Fraud had a variety of effects, including a decline in people's faith in brokers and financial consultants. Retail investors grew reluctant to participate in investment activities as a result, worried about possible scams and "fraudulent practices." The detrimental effects of fraud on market social dynamics further intensified their repercussions on individual investors.

The effect of "financial literacy and attitude characteristics" in the stock market engagement was assessed as well by "Sivaramakrishnan et al. (2017)". They showed that retail investors were more prone to falling for various stock market scams since they had little knowledge of and awareness of "fraudulent practices." These investors were disproportionately harmed by frauds because they frequently lacked the knowledge essential to recognise and defend themselves against fraudulent schemes.

Their susceptibility made them simple prey for scammers, which led to substantial financial losses and a decline in their faith in the market. They emphasized the need of investor education and financial literacy in empowering ordinary investors with the knowledge to identify and prevent "fraudulent activities".

## Literature Review

Fraud was the focal point of Mishra et al. (2015); understanding the effects of fraud is relevant. "Market manipulation" and "insider trading" are two examples of fraud that can impair the market's regular operations and cast doubt on the idea that markets are efficient. For personal advantage, these dishonest methods may involve manipulating stock prices, abusing confidential information, or fabricating market patterns. Retail investors are significantly harmed when stock market frauds take place. They encounter an unequal playing field where some individuals have an unfair edge yet are frequently ignorant of the manipulative behaviors going place. Due to this mismatch, individual investors begin to lose faith in the market and begin to doubt the fairness of the trading environment. The loss of confidence can have far-reaching consequences, including negative implications on their financial outcomes and investing choices. Due to their lack of faith in the fairness of the market, retail investors may start to hesitate to invest or may end up making ill-informed choices. Financial losses are just one effect of fraud on regular investors. They become more skeptical and uneasy about the market as a result. An investor's confidence in the regulatory framework designed to safeguard them may be shaken by the disclosure of fraudulent acts. Retail investors could consequently lose interest in the market and decide to completely leave it, depriving themselves of possible investment opportunities and possibly impeding their long-term financial objectives.

Mangala and Kumari (2015) focused on preventing and detecting corporate fraud. They emphasized the significance of putting into place efficient fraud prevention strategies in corporate settings. Because they invest in a variety of companies that are listed on exchanges, retail stock market investors should pay particular attention to this element. Financial performance and stability of businesses were significantly impacted by corporate crimes such "financial statement fraud" and "misappropriation of assets," which led to considerable losses for individual investors. To protect the interests of retail investors, there is a need for strong regulatory frameworks and rigorous monitoring, which is highlighted by the occurrence of such fraudulent operations that damage investor confidence.

Singh (2014) looked at the connections between a stable financial situation, financial literacy, and a productive economy. This revealed that retail investors with greater levels of financial literacy were more able to identify and steer clear of shady business practices. These investors were more inclined to conduct in-depth due diligence, review financial records, and appreciate the dangers involved with various investment possibilities. Their financial knowledge served as a barrier against fraudulent activities, minimizing the harm done to regular investors and promoting a more effective and stable stock market environment.

According to Dawar and Goyal (2013) share prices and investor trust were significantly impacted by fraudulent acts such as "financial misreporting" and "manipulation of financial statements." Share prices fell because of the scams, which also caused an atmosphere of distrust and uncertainty. This cost individual investors a lot of money. Vismara (2018) looked at the phenomenon of data falls among equity crowdfunding investors, which can also be subject to dishonest practices. Retail investors may be duped by "crowdfunding scams" that portray projects or information in a false or misleading manner, putting their money at risk. The capacity of retail investors to make wise investment decisions is hampered by these dishonest practices, which undermine the market's trust and openness. To reduce the dangers posed by fraudulent actions in the equity crowdfunding sector, it was emphasised how crucial it is to put in place proper investor protection procedures and regulatory oversight.

Singh (2021) assessed the factors affecting retail investors' choices in the Indian stock market and the effect that fraud had on these choices. Retail investors were prone to numerous frauds, such as "pump and dump schemes" and "stock price manipulation." These fraudulent practices deceived investors, skewed the genuine value of stocks, and caused huge financial losses. Retail investors thus lost faith in the market, which had a negative impact on the economy. The importance of investors' awareness of the developing Indian mutual fund market was emphasized by Kaur and Bharucha (2021). In this situation, it is crucial to consider how fraud affects investor behavior. Investors' trust in the sector can be harmed by dishonest actions like "misrepresenting fund performance" and "insider trading in mutual funds." Retail investors may change their investing behavior after learning about such fraudulent actions, leading to a cautious approach or even a withdrawal from mutual fund investments. Shashikala and Girish (2015) looked at factors determining retail investors' trading behavior in the Indian equities market. Investors may feel apprehensive and distrustful because of dishonest strategies like "front-running" and "false rumors" As a result, retail investors may trade cautiously, limiting their involvement in the market.

**Objective:**

1. To find the types of frauds and their impact on retail investors in stock market.
2. To find how Stock Market Frauds impact Trust of Retail Investors.

**Research Methodology:**

The nature of the study is empirical. 175 respondents were targeted to share their viewpoints on the types of frauds and their impact on retail investors in the stock market. After the data collection it was examined through frequency distribution technique and therefore pie charts were used to present the data include Mean and T-test.

**Data Analysis and Interpretation:**

**Table 1 Manipulations lead to bad investments**

| Particulars | Agree | Disagree | Can't Say | Total |
|---|---|---|---|---|
| No of Respondents | 158 | 11 | 6 | 175 |
| % age | 90.0 | 6.0 | 4.0 | 100 |

Table 1 shows the data of the statement **manipulations lead to bad investments,** and 90.0% of total respondents comply with the statement.

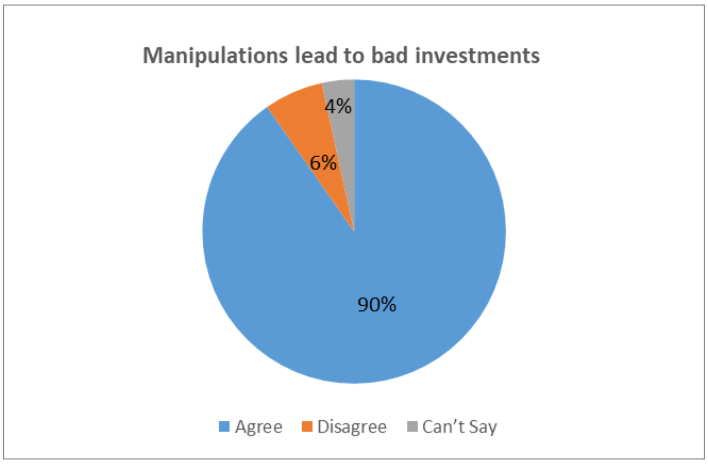


**Figure 1 Manipulations lead to bad investments**

**Table 2 Insider trading erodes investor confidence**

| Particulars | Agree | Disagree | Can't Say | Total |
|---|---|---|---|---|
| No of Respondents | 164 | 6 | 5 | 175 |
| % age | 94.0 | 3.0 | 3.0 | 100 |

Table 2 shows the data of the statement **insider trading erodes investor confidence,** and 94.0% of total respondents comply with the statement.

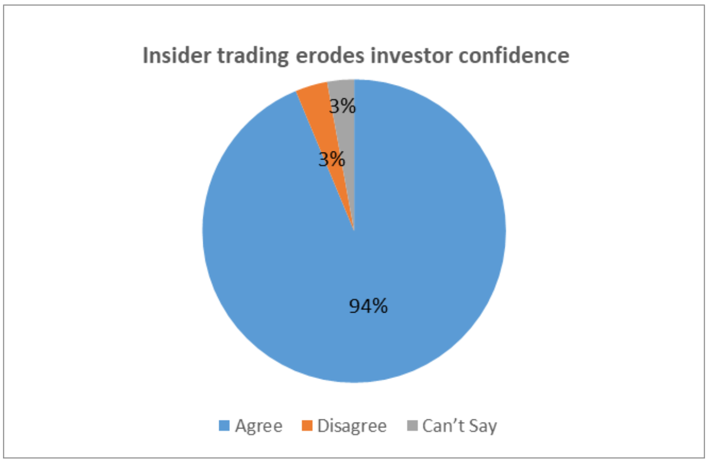


**Figure 2 Insider trading erodes investor confidence**

**Table 3 Corporate fraud impacts financial performance & stability of business**

| Particulars | Agree | Disagree | Can't Say | Total |
|---|---|---|---|---|
| No of Respondents | 148 | 18 | 9 | 175 |
| % age | 85.0 | 10.0 | 5.0 | 100 |

Table 3 shows the data of the statement **corporate fraud impacts financial performance & stability of business,** and 85.0% of total respondents comply with the statement.

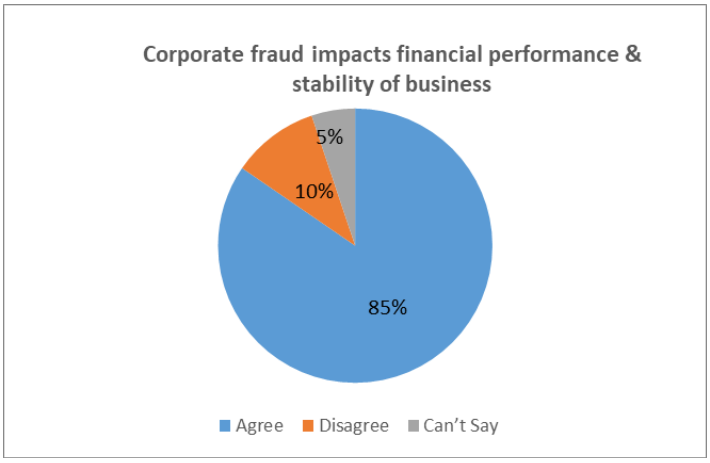


**Figure 3 Corporate fraud impacts financial performance & stability of business**

**Table 4 Financial Misreporting Impacts Share Price and Investor Trust**

| Particulars | Agree | Disagree | Can't Say | Total |
|---|---|---|---|---|
| No of Respondents | 153 | 16 | 6 | 175 |
| % age | 88.0 | 9.0 | 3.0 | 100 |

Table 4 shows the data of the statement **financial misreporting impacts share price and investor trust,** and 88.0% of total respondents comply with the statement. Keeping in mind all the feedback of the statements, it was found that to a good percentage, the respondents have agreed that different frauds in stock markets have a great impact on retail investors.

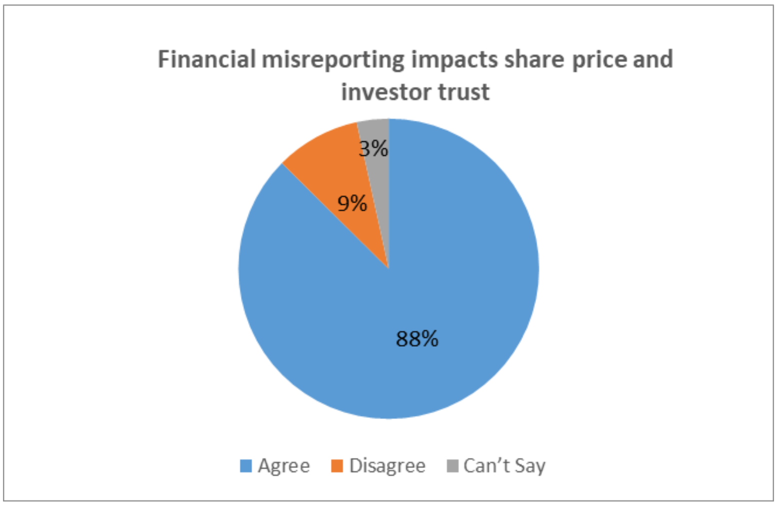


**Figure 4 Financial misreporting impacts share price and investor trust**

**Demographic Result**

Table 5. Displays gender of participants, male– 60.57%, and female–39.43%. Age is between 25 - 35 years are 29.14%, 35 - 45 years are 37.14%, and above 45 years are 33.72%. Looking at the Income level of investors, 5 lacs to 10 lacs are 36.00%, 10 lacs to 15 lacs are 28.00%, More than 15 lacs are 36.00%. Regarding the Investment duration, short term Investors are 53.71% and long-term Investors are 46.29%.

**Table1. Demographic details**

| Variables | No. of Participants | Percentage |
|---|---|---|
| **Gender** | | |
| Male | 106 | 60.57% |
| Female | 69 | 39.43% |
| **Total** | **175** | **100%** |
| **Age** | | |
| 25 - 35 years | 51 | 29.14% |
| 35 – 45 years | 65 | 37.14% |
| Above 45 years | 59 | 33.72% |
| **Total** | **175** | **100%** |

| **Income Level** | | |
|---|---|---|
| 5 lacs to 10 lacs | 63 | 36.00% |
| 10 lacs to 15 lacs | 49 | 28.00% |
| More than 15 lacs | 63 | 36.00% |
| **Total** | **175** | **100%** |
| **Investment Duration** | | |
| Short term Investors | 94 | 53.71% |
| Long term Investors | 81 | 46.29% |
| **Total** | **175** | **100%** |

**Table2. Impact of Stock Market Frauds on Trust of Retail Investors**

| **Sr. No.** | **Statements** | **Mean** | **T Value** | **Significance.** |
|---|---|---|---|---|
| 1. | Lack of honesty and justice in the market, financial losses are suffered by retail investors and get demoralized | 4.33 | 17.904 | 0.000 |
| 2. | Stock Market fraud led to substantial losses and broke confidence of retail market in market | 4.21 | 16.392 | 0.000 |
| 3. | Due to manipulation of information, retail investors make bad investment decisions | 4.07 | 14.726 | 0.000 |
| 4. | Stock Market frauds declines faith of retail investors in brokers and financial consultants | 4.19 | 16.047 | 0.000 |
| 5. | Raising of deflating stock prices intentionally lead investors make wrong judgment of market | 4.23 | 16.859 | 0.000 |
| 6. | Fraudulent operations in stock market affect opinion of retail investors leading to lack of motivation to make investments | 3.15 | 2.021 | 0.022 |
| 7. | Financial losses due to frauds in market lower the opinion about reliability of market and lower participation | 3.13 | 1.768 | 0.039 |
| 8. | Loss of confidence in market can lead to negative implications on financial results and investment choices | 4.13 | 15.439 | 0.000 |
| 9. | Stock market frauds deprive retail investors from investment opportunities and long-term investments | 4.25 | 16.873 | 0.000 |
| 10. | Retail investors loose interest from making investment in stock market due to fraudulent activities of market | 4.11 | 15.245 | 0.000 |

Table 6. Shows mean value of "Impact of Stock Market Frauds on Trust of Retail Investors" first statement talks about lacking honesty, Lack of honesty and justice in the market, financial losses are suffered by retail investors and get demoralized (mean value 4.33), second statement is about financial losses, Stock Market fraud led to substantial losses and broke confidence of retail market in market (mean value 4.21), Due to manipulation of information, retail investors make bad investment decisions(mean value 4.07), Stock Market frauds declines faith of retail investors in brokers and financial consultants (mean value 4.19), Raising of deflating stock prices intentionally lead investors make wrong judgment of market (mean value 4.23), next statement talks about lack of motivation, Fraudulent operations in stock market affect opinion of retail investors leading to lack of motivation to make investments (mean value 3.15), Financial losses due to frauds in market lower the opinion about reliability of market and lower participation (mean value 3.13), Loss of confidence in market can lead to negative implications on financial results and investment choices (mean value 4.13), Stock market frauds deprive retail investors from investment opportunities and long-term investments (mean value 4.25), and last statements talks about lacking investment interest of investors, Retail investors loose interest from making investment in stock market due to fraudulent activities of market (mean value 4.11). T-value of statements in a survey in context of Impact of Stock Market Frauds on Trust of Retail Investors are identified as significant as t-value of all statements is positively as significance values are less than 0.05.

## Conclusion

In the realm of stock markets, fraud may have a big influence on retail investors, especially in a place like India where there is a lot of retail participation. There are various distinct fraud kinds, each with its own repercussions. Insider trading is a prevalent form of fraud whereby those with access to private information profit from it by trading stocks. For ordinary investors who lack access to such information, it risks the market's fairness and can result in large losses. Market manipulation, which involves artificially raising or deflating stock prices to generate a misleading sense of market activity, is another type of fraud. Financial losses may happen if investors are misled and forced to make judgements based on misleading information. Furthermore, it is critical for retail investors to carry out in-depth research, get guidance from reputable sources, and proceed cautiously while making investment selections. In conclusion, retail investors suffer as a result of stock market frauds in India. Insider trading, market manipulation, and dishonest investment schemes can cause losses of money and undermine market confidence. Regulations that are strict, oversight, and investor education are essential for protecting retail investors. The government can increase investor trust and foster a wholesome and long-lasting ecosystem for the stock market by establishing a transparent and equitable market environment. T value in T-test for all statement in context of the Impact of Stock Market Frauds on Trust of Retail Investors is identified to be significant as t-value of statements is positive and significance values are less than 0.05.

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