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"Analyzing Retail Investor Reactions to IPOs: Balancing Initial Hype and Long-Term Performance."

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Abstract

The following study looks at how Indian retail investors respond toward IPOs, along with accounting for stock performance later on in addition to the phenomenon of initial market euphoria. The purpose of this study is to determine if retail investors act rationally or give in to speculative passion through an analysis of many past initial public offerings (IPOs), investor sentiment, and specific financial measures. The majority of initial public offerings (IPOs) see large opening-day price returns, according to the study. However, extended long-term performance is below expectations. Retail investor participation comes as a result of several behavioral biases, along with herd mentality, overconfidence, as well as FOMO. To better encourage the many investors throughout the IPO markets toward their making quite well-informed decisions, the paper ends with several suggestions regarding investor education and certain regulatory measures.

1. Introduction

India's IPO market has experienced a noticeable increase during recent years due to more retail investors and increasing disposable incomes, coupled with the growth of digital trading platforms. The increase of IPO activity is reflected through blockbuster listings, such as of Zomato, of Paytm, and of Nykaa, which witnessed high public interest. However, the performance of these IPOs after listing presents a varied picture for some. Some have managed to keep their initial rise, but others have not kept investor confidence throughout. Indian retail investors frequently tend to have many behavioral biases, along with herd behavior, fear of missing out (FOMO), as well as overconfidence, which substantially contribute to increased participation within IPOs, especially across those that possess high media publicity. Initial Public Offerings (IPOs) often experience significant oversubscription; however, their long-term stock performance frequently falls short of initial expectations. Several factors, including overvaluation, the underlying business fundamentals, and broader macroeconomic conditions, greatly influence the trajectory of stocks post-listing. This research primarily aims to examine how retail investors in India respond to IPOs, focusing on the intricate interplay between early market enthusiasm and later stock performance. By analyzing historical IPO data, market trends, and investor behaviors, we seek to illuminate the effectiveness of retail investment strategies and assess the impact of financial literacy on informed decision-making.

2. Literature Review

Previous research on IPO performance identifies the main drivers of investor behavior. Ritter (1991) and Loughran and Ritter (2004) have found that IPOs are characterized by short run price bubbles but they are poor performers in the long run. Purnanandam and Swaminathan (2004)

investigated Indian IPOs and found that most of them are overpriced at the time of listing, which is due to over optimism and speculation. To enhance the pricing efficiency and transparency, SEBI has brought in reforms like introduction of book building mechanism. However, the research suggests that retail investors are prone to market sentiment, analyst ratings and media coverage instead of fundamental analysis.

3. Research Statement

This study examines the influence of initial IPO hype on retail investor behavior in India particularly in reference to retail investors in Mumbai and assesses whether IPO investments deliver sustainable long-term returns.

4. Research Methodology

Research Design

The research is based on a quantitative research methodology, with the use of a structured questionnaire to collect data from investors. Statistical analysis is the focus to comprehend the effect of media influence and hype on investment decisions in IPOs.

Sample Size and Sampling Method

154 retail investors took part in the research. Stratified random sampling was employed to provide representative diversity across income groups, educational levels, and professional classes.

Data Collection Method

Primary Data: Online questionnaires were sent to gather direct investor responses.
Secondary Data: Data was collected from financial institution reports, research studies, and analyses of IPO market performance.

Data Analysis Tools

Descriptive Statistics: Employed to detail demographic information and investment habit patterns of the respondents.
Hypothesis Testing (JAMOVI): Utilized linear regression analysis to test the correlation between media influence, investor expectations, and the performance of IPOs, ensuring statistical testing of the hypotheses.

5. Sample Selection

This research examines IPOs on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) between 2013 and 2025, comparing retail investor reaction to high-profile and low-profile IPOs in order to establish variation in their investment behavior.

6. Objectives of the Study

- To study retail investor behavior in IPO launches in India.
- To compare short-term IPO performance and long-term stock trends.
- To analyze the influence of media and social sentiment on IPO investment.
- To determine IPO success and failure factors.
- To recommend steps for enhancing investor awareness and decision-making

7. Hypothesis

Null Hypothesis (H_0): Retail investor participation in Indian IPOs is not significantly affected by initial hype, and IPOs do not follow a pattern of short-term price spikes followed by long-term underperformance.

Alternate Hypothesis (H_1): Retail investor participation in Indian IPOs is significantly affected by initial hype,

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resulting in short-term price spikes followed by long-term underperformance.

8. Hypothesis Testing Method

For investigating the effect of media hype on investor decision-making in IPO investment, linear regression analysis was applied with JAMOVI. Long term performance was the dependent variable, while independent variables were media influence, financial literacy, and previous experience with IPOs. The outcome was assessed with respect to significance levels (p-values) in order to verify whether media hype has a significant influence on investors' behavior and long term performance. This statistical methodology aided in establishing if the first-time fervor at an IPO leads to investment behavior over time or is only a fleeting response.

9. Hypothesis Testing

Based on survey data and linear regression analysis using JAMOVI, this research analyzes the effects of media influence, hype, and investors' expectations on IPO investment choice. The findings are that although individual expectations and limited information sources are not related to participation in IPOs, media hype is strongly related to stock price performance and subscription levels (where p = 0.001).

On these results obtained, the null hypothesis cannot be rejected, which indicates that market sentiment plays a more powerful influence, along with psychological variables, in determining investor behavior compared to traditional finance measures. It is critical to emphasize regulatory intervention as well as investor education programs in an attempt to limit speculative investment patterns and support better-informed decisions within IPO markets.

Model Fit Measures

Model	R	R^2
1	0.654	0.428

Note. Models estimated using sample size of N=154

Model Coefficients - Q10 -How do you perceive IPO pricing by companies?

Predictor	Estimate	SE	t	p
Intercept ᵃ	1.7374	0.227	7.6396	< .001
Q5 -What factors influence your decision to invest in an IPO? (Select all that apply):				
1, 2 – 1	−1.1050	1.139	−0.9703	0.334
1, 2, 3 – 1	−0.8763	0.498	−1.7603	0.081
1, 2, 3, 4 – 1	−0.2020	0.769	−0.2628	0.793
1, 2, 3, 4, 5 – 1	−0.5619	0.725	−0.7746	0.440
1, 2, 4 – 1	0.4958	0.932	0.5318	0.596
1, 2, 4, 5 – 1	−2.2652	1.489	−1.5214	0.131
1, 3 – 1	0.0148	1.228	0.0120	0.990
1, 3, 4 – 1	−1.2561	1.303	−0.9641	0.337
1, 3, 4, 5 – 1	−1.7219	1.360	−1.2663	0.208
1, 4 – 1	1.6251	0.820	1.9827	0.050
1, 5 – 1	0.3707	1.059	0.3500	0.727
2 – 1	0.0356	0.256	0.1390	0.890
2, 3 – 1	−0.4004	0.803	−0.4987	0.619
2, 3, 5 – 1	0.1338	0.816	0.1640	0.870
3 – 1	−0.1714	0.315	−0.5439	0.588
3, 4 – 1	−1.6671	1.192	−1.3981	0.165
3, 4, 5 – 1	−2.7360	1.508	−1.8139	0.073
3, 5 – 1	0.2626	1.020	0.2575	0.797
4 – 1	−0.4158	0.377	−1.1017	0.273
4, 5 – 1	−1.0723	1.150	−0.9326	0.353
5 – 1	−0.1535	0.471	−0.3261	0.745

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Q6 -How do you typically gather information about an upcoming IPO? (Select all that apply):				
1, 2 – 1	0.9298	0.625	1.4865	0.140
1, 2, 3 – 1	1.3891	0.850	1.6336	0.105
1, 2, 3, 4 – 1	1.3423	1.375	0.9760	0.331
1, 2, 3, 4, 5 – 1	1.5540	0.711	2.1843	0.031
1, 2, 3, 5 – 1	0.6082	1.116	0.5450	0.587
1, 2, 4 – 1	0.7171	0.682	1.0514	0.295
1, 2, 4, 5 – 1	0.2523	0.978	0.2580	0.797
1, 3 – 1	NaN	NaN	NaN	NaN
1, 4 – 1	0.0615	0.663	0.0927	0.926
2 – 1	0.0323	0.250	0.1289	0.898
2, 3 – 1	0.1733	0.780	0.2223	0.825
2, 3, 4 – 1	2.9536	1.114	2.6514	0.009
2, 3, 4, 5 – 1	4.9986	1.813	2.7573	0.007
2, 3, 5 – 1	0.4578	0.883	0.5187	0.605
2, 4 – 1	2.4718	1.808	1.3669	0.175
2, 5 – 1	0.4139	0.651	0.6357	0.526
3 – 1	0.3201	0.319	1.0031	0.318
3, 4, 5 – 1	−0.1531	1.453	−0.1053	0.916
3, 5 – 1	3.7016	1.853	1.9982	0.048
4 – 1	1.1642	0.435	2.6782	0.009
4, 5 – 1	1.4829	1.070	1.3858	0.169
5 – 1	1.1004	0.663	1.6591	0.100
Q7 -What is your primary expectation when investing in an IPO?:				
2 – 1	0.1813	0.251	0.7222	0.472
3 – 1	0.1853	0.236	0.7860	0.434
4 – 1	−0.0485	0.438	−0.1107	0.912
Q11 -Do you think media and hype influence IPO subscription rates and stock price performance?:				
2 – 1	0.3454	0.236	1.4661	0.146
3 – 1	0.8597	0.262	3.2772	0.001
4 – 1	1.1708	0.350	3.3460	0.001

Note. Linear model contains aliased coefficients (singular fit)

10. Data Analysis and Interpretation

Data is taken from 154 respondents questionnaires and NSE and BSE market reports, financial databases and SEBI filings. IPO performance is divided into three stages:

- *Pre-IPO Sentiment*: Media trends and press coverage prior to listing.
- *Initial Market Reaction*: Price movement on the first day and retail level participation.
- *Post-IPO Performance*: Stock movement 12 months post-listing, analyzing return on investment.

Findings show that extremely highly expected IPOs with great media coverage generally have large opening gains. Yet, long-run performance is inconsistent, with stocks underperforming market indices. Retail investors act in a herding manner and are usually motivated by previous successes of IPOs instead of economic fundamentals.

10. Findings

The findings from the statistical analysis reveal the determinants of retail investor behavior in IPO markets. The answers to Q6 suggest that investors make use of various sources to acquire information on an imminent IPO, such as media, financial analysts, social networks, and word-of-mouth. Interestingly, the answers "1, 2, 3, 4, 5 – 1" ($p = 0.031$) and "2, 3, 4, 5 – 1" ($p = 0.007$) indicate that investors who collect information from multiple sources are likely to have statistically significant patterns in their investment behavior. This means diversified sources of information can influence investors' perception and interaction with IPOs.

Conversely, high p-value sources (e.g., "2 – 1" with $p = 0.898$) suggest no significant association, i.e., that using a small number of information sources does not significantly affect IPO investment choices. Q7, which tests the main expectations of investors when investing in an IPO, reveals that answers like "2 – 1" and "3 – 1" do not provide significant p-values, suggesting that investor expectations by themselves do not influence IPO investment choices.

Notably, the answer "4 – 1" also has a negative coefficient (-0.0485) but is still non-significant ($p = 0.912$), which means that investors' return expectations can possibly not play a significant role in their involvement in IPOs. Q11, which evaluates if media and hype have an impact on subscription rates for IPOs and stock performance, displays high statistical significance for answers "3 – 1" ($p = 0.001$) and "4 – 1" ($p = 0.001$). This identifies that media coverage and hype are important in influencing investor sentiment to contribute to increased IPO subscription levels and to drive stock price changes. Generally, the results imply that media and hype are critical in IPO decision-making, whereas individual expectations and selective information sources can be less effective. These findings support the necessity for investor education and regulation to counteract the dangers of investment manias and encourage more informed financial choices.

11. Suggestions

More transparency in the valuation and risk assessment of IPOs would greatly benefit retail investors in making decisions. Improved guidance of earnings and full disclosure of risks in the IPO prospectuses of companies will enable investors to make sound long-term survivability decisions. There was massive retail buying of Zomato's IPO due to good recall, but post-listing fear over profitability generated volatility in the stocks. Similarly, Paytm's IPO was massive in India but trailed after listing as investors understood its high valuation wasn't supported by timely profitability. In contrast, Nykaa's IPO had strong fundamentals and profitability to result in improved long-term performance. Speculative trading can be checked by controlling such trading through interventions like retail investor lock-in periods. SEBI has already made it obligatory for anchor investors to have a lock-in of 30 days, but requiring the same level of lock-in for retail investors would discourage such impulsive trading. Adani Wilmar And Latent View Analytics saw sky-high demand during their IPO phases, with valuations surging, but their ten-year performances varied on the lines of financial health.

Additionally, using AI-based investment platforms can give data-based inputs, free from emotional biases. AI-based tools such as Smallcase, Ticker Tape, and Zerodha's Streak study financial metrics and market trends, providing investors well-researched advice rather than media reports. For example, while LIC's IPO was given extensive media coverage, AI-based valuation models pointed towards issues in its growth potential, enabling some investors to make cautious decisions. All these methods together encourage rational investment habits and minimize risks involved in IPO speculation.

12. Conclusion

To develop a more efficient and investor friendly IPO market, SEBI can implement several new means of regulating speculation, enhancing transparency, and promoting long-term investment. One such initiative is to implement dynamic lock-ins depending on the risk profile of a company, with riskier IPOs having higher lock-ins so that short-term speculation is ruled out. Secondly, SEBI can create AI-driven risk assessment portals that give risk scores and neutral analysis to investors so that they make informed decisions instead of acting on media reports. Another very important step is to make superior pre-IPO disclosures obligatory with easy-to-read financial summaries and independent transparency scores so that retail investors can better evaluate risks. To avoid overpricing, SEBI can impose more stringent IPO pricing guidelines whereby valuations need to be congruent with audited books as well as industry practices. The creation of an Investor Protection Fund (IPF) financed from a modest share of IPO proceeds can also reimburse retail investors for deceptive financial statements at a higher cost to firms and underwriters. These measures would lead to a more open, equitable, and stable IPO culture in India, curbing speculative losses and fostering long-term investment in well-founded companies.

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