

A Case Study on Fear of Missing Out (FOMO) in Bull Market Strategies and Shifting Investment Opportunities

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Abstract

Mr. Akshay, a dedicated employee at a private firm with a stable salary, developed a keen interest in the Indian stock market over time. Prior to 2024, his investment portfolio largely consisted of safer assets like fixed deposits and real estate. However, the 2024 Indian elections marked a turning point in his investment journey. New government policies and economic strategies that boosted investor confidence led Akshay to actively explore the stock market as a more dynamic investment avenue.

Following the 2024 Indian elections, the market saw an upswing, driven by optimistic fiscal policies. The government's focus on economic growth, middle-class empowerment, and favourable business reforms triggered a surge in market sentiment. Additionally, retail investors became more engaged, aided by increased financial literacy and accessible investment platforms.

Akshay noticed the market's bullish momentum, with the Nifty index climbing steadily from 21,500 in June to a record high of 26,250 in September 2024. This impressive rally was largely fueled by the fiscal budget, which, despite increasing capital gains tax, created a positive environment for economic growth. Middle-class taxpayers were granted benefits, creating a ripple effect that spurred higher retail investments in stocks.

Seeing this strong performance, Akshay felt the fear of missing out (FOMO) on potential market gains. His traditional investments, particularly fixed deposits, offered diminishing returns as banks reduced interest rates, making equity investments more appealing by comparison.

Motivated by the prospect of higher returns, Akshay decided to increase his exposure to the stock market. Between June and September 2024, he significantly ramped up his investments, taking both equity and derivative positions. With a focus on capitalizing on the stock market's bullish trend, Akshay shifted his investment strategy from conservative to more aggressive. He closely followed the insights of seasoned investors, whose strategies resonated with his newly developed appetite for risk.

Additionally, Akshay began reassessing his long-standing real estate investments, which he had previously regarded as safe, long-term options. Due to concerns over indexation benefits and relatively stagnant real estate returns, Akshay started to see the stock market as a more dynamic and lucrative alternative. The agility of equity markets, compared to the slower, less liquid nature of real estate, aligned better with Akshay's evolving financial goals.

However, in September 2024, after reaching an all-time high, the stock market began to correct. The mar-

ket's sharp decline was triggered by a combination of global and geopolitical events based on China's introduction of new stimulus measures to bolster its economy impacted global markets, especially emerging markets like India, causing investor sentiment to shift. The U.S. Federal Reserve's decision to cut interest rates also influenced global liquidity and asset prices, leading to volatility in the Indian stock market. Political uncertainty from the U.S. elections further unsettled global markets, creating ripple effects across economies.

These global developments, coupled with the correction in Indian stocks, caused Akshay to feel a fear of falling (FOF), a stark contrast to the FOMO that had previously driven his investment decisions. The bullish market he had confidently invested in was now facing headwinds, and his aggressive portfolio, which included derivatives, faced potential losses.

Akshay, who was accustomed to the relative stability of traditional investments like real estate and fixed deposits, began to question his ability to navigate the unpredictable nature of stock markets. He realized that his shift to aggressive investment strategies might not be enough to safeguard his financial freedom, especially in times of market correction.

Faced with this new reality, Akshay is now at a critical crossroads. He must decide whether to hold his positions, adjust his portfolio, or perhaps revert to a more conservative approach. The market's volatility and the potential risks of derivative investments have given him pause. He is considering several factors in his decision-making process and they are:

- Should he liquidate some of his stock market investments to reduce risk?
- How can he balance his portfolio to protect against further market downturns?
- Should he re-diversify into real estate or other safer investment options?
- What risk management strategies can he adopt to navigate global uncertainties and volatile market conditions?

Akshay is aware that his next moves will have significant implications for his long-term financial security. He seeks to balance short-term market corrections with long-term investment growth while minimizing the risks posed by sudden market shifts.

Questions

1. What was the primary reason that led Mr. Akshay to infuse more capital into the stock market in 2024, and how did market conditions and government policies influence his decision?
2. How did Mr. Akshay's investment strategy shift after the stock market correction in September 2024? What prompted this change, and how should he adjust his approach moving forward?
3. Which of the following global factors—China's stimulus plan, the U.S. Federal Reserve's rate cut, or the U.S. elections—contributed to the correction in the Indian stock market after its peak in September 2024? Explain with suitable reasons how these events impacted investor sentiment.
4. What measures do you suggest Mr. Akshay take in deciding his future positions in the stock market? Should he continue to invest, diversify, or reduce his exposure to equities? Justify your recommendations with risk management strategies.
5. What were the reasons behind Mr. Akshay's shift from real estate investments to stock market investments? Analyze how the comparative returns, liquidity, and market conditions influenced this decision.