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Behavioral Finance & Insider Trading in Securities Market

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There is no hiding that in our country, emotions play a major role in decision making. Similarly, in securities market emotions play a major role. But there is a theory called Efficient Market Hypothesis. As a result of this theory of market efficiency, markets are thought to be rational and their prices accurately represent all of the relevant information. Stock prices respond swiftly to new information because investors take action when it becomes accessible, and they reflect all of the information at once. As a result, no investor can outperform the market through the generation of outlier returns. The EMH standards are not followed in many stock exchanges around the world, however. These stock markets don't operate according to the same principles as the EMH-based ones. Anomalies are irregular changes in the normal course of events. They may appear only once before disappearing, or they may recur. This paper discusses various types of anomalies, biases & how to overcome them, and role played by behavioral finance in securities market. Insider trading was a concern in the past, and it remains one today. Insider trading is a common occurrence all throughout the world, whether in the UK, the US, or India. United States of America took a major step by passing legislation to combat the dangers of insider trading before any other country. In India separate legislation has been passed regarding Insider Trading which is separate from Companies Act, 2013.[1] But the legislation suffers from the lack of a robust investigative system due to which many cases involving insider trading are not properly handled.

Keywords: *finance, insider trading, market.*

[1] Companies Act 2013

INTRODUCTION

Behavioral finance is unavoidable since it is linked to human psychology of inferring diverse things from the same event. Psychology plays a major role in the security market. It guides or directs us to move in a specific direction.[2] When faced with an identical situation, all persons will draw different conclusions, resulting in either inefficiencies or opportunities. For example, if people see a lot of money being made in the markets, they will invest more money in it. As a result, these folks invest after prices have already risen and then sell when prices fall. This illogical behavior produces market inefficiencies.[3] Most people are aware that emotions influence investment decisions. People in the industry frequently discuss the impact that greed and fear play in driving stock markets. This study is extended in behavioral finance to the role of biases in decision making, such as the adoption of simple rules of thumb when making complex investment decisions.

The efficient market hypothesis (EMH)[4] states that in a highly liquid market, stock prices are efficiently priced to reflect all available information at any one time. Many studies, however, have demonstrated long-term historical events in securities markets that violate the efficient market hypothesis and cannot be rationally captured in models based on perfect investor rationality. An efficient market is one in which prices always "efficiently reflect" available information. In summary, the Efficient Markets Hypothesis holds that capital markets are informationally efficient. According to Eugene Fame, the founder of the efficient market theory, "market efficiency survives the test from the literature on long-term return anomalies." But the information in the market is not always efficiently and equally distributed among all. Due to which activities like Insider Trading take place. Insider trading is defined as the trading of shares by an "insider" based on price-sensitive information that has not yet been publicized (UPSI). It entails purchasing or selling shares of a publicly-traded firm using information that has the potential to dramatically impact the stock price but has not yet been made public. "Insider" and "UPSI" are the keywords in this context. "Insider" is defined by SEBI regulations

[2] Adam Hayes, 'Market Psychology' (*Investopedia*, 16 July 2021) <https://www.investopedia.com/terms/m/marketpsychology.asp> accessed 12 September 2021
[3] *Ibid*
[4] Burton G Malkiel, 'The Efficient Market Hypothesis and Its Critics' (2003) CEPS Working Paper No 91

as someone with a connection or knowledge of the UPSI. A linked person is somebody who has been involved with the company in some capacity in the six months preceding the insider trade. This might be a firm director or employee, or their close relatives, or a legal counsel or banker to the company, or even a stock exchange official, trustees, or staff of an asset management organization who engaged with the company.[5] UPSI includes, but is not limited to, information relating to a company's quarterly performance, merger and acquisition deals, major capacity expansion or shutdown plans, or any other significant activities that have not been widely publicized. When insiders utilize their UPSI to execute transactions, the regulator can hold them accountable. This can't be specifically termed as anomalies like January Effect, neglected stocks performing better in long run, etc. because apart from the person having inside knowledge no other has the same insight. It can be termed as an example of behavioral finance as the emotions take over the ethics and principles of the insider.

BEHAVIORAL FINANCE – PSYCHOLOGY OF THE SECURITIES MARKET

Behavioral Money refers to the study of finance based on realistic assumptions about how people act, which are frequently validated by psychological tests. In his book on behavioral asset pricing, Shefrin (2005) explains, "Behavioral finance is the study of how mental phenomena affect financial behavior."[6] It is a notion that was developed with input from the fields of psychology and finance. It seeks to provide better answers for different perplexing observations in the stock market. Individuals', practitioners', markets', and managers' behavior is sometimes described as illogical.

> "*People in standard finance are rational. People in behavioral finance are normal*."
>
> \- Meir Statman[7]

The behavioral finance hypothesis is founded on the following three criteria[8]:

[5] *Ibid*
[6] Hersh Shefrin, *A Behavioral Approach to Asset Pricing* (first published 21 January 2005)
[7] Meir Statman, *Behavioral Finance: The Second Generation* (first published 2019)

- **Psychology:** In behavioral finance, we look at how a person's attitude, emotions, and thinking influence his or her investing decisions.
- **Sociology:** It highlights the influence of social ties and an individual's behavior while in a group or society on his or her decision-making capacity.
- **Finance:** The amount of money accessible to the investor, as well as the price and future worth of the security, all influence capital allocation functions.

Behavioral finance helps us understand how human emotions, biases, and cognitive limitations affect financial decisions such as investments, payments, risk, and personal debt.[9]

CONCEPT OF BEHAVIOURAL FINANCE

Consider the different perceptions of behavioral finance when making sensible investing decisions. These are explained below:

- **Herd Mentality -** Individuals tend to invest following their peers, resulting in substantial economic changes. If, for example, unfavorable news is revealed about a stock, investors begin to sell their whole shares, causing the price to fall.[10]
- **Mental Accountancy -** As a result of their intuitive approach, their investment decisions are negatively impacted by their tendency to pre-allocate cash for a specific goal. For example, if you have surplus funds, you keep them in a savings account rather than a fixed deposit so that you may easily access them when needed.[11]
- **Anchoring -** Investment decisions are often influenced by investors' psychological benchmarks, which are distorted by irrelevant information. During this process, the true worth or potential future profit of the investment is often disregarded. 'Anchoring' is the process of associating a given level of expenditure with a certain reference. This

[8] 'Behavioral Finance - How processing errors and biases impact investors' (*Corporate Finance Institute*) <https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/behavioral-finance/> accessed 17 September 2021

[9] *Ibid*

[10] ACCA, 'Behavioral Finance' <https://www.accaglobal.com/vn/en/student/exam-support-resources/fundamentals-exams-study-resources/f9/technical-articles/behavioural-finance.html> accessed 17 September 2021

[11] *Ibid*

includes spending consistently based on a budget level or rationalizing expenditure based on different satisfaction utilities. Such example the amount of money that someone decides they will spend on a given item.

- **High Self Rating -** The overconfident investors place a lot of faith in their information. Based on this self-attrition, they make their decisions. An investor in mutual funds, for example, can create his investment portfolio.
- **Emotional Gap -** Investors are notorious for making irrational decisions. In the process of making an investment decision the emotions of dread, anxiety, panic, and rage take over. Jealousy also plays a role. Desperately seeking to profit from bitcoins, several people made rash investments that ended up costing them money.

BEHAVIORAL BIASES

Financial market participants' behaviors and decisions may be affected by behavioral biases. Knowing about these biases can help financial market participants respond to them and enhance economic results as a result. There are two types of cognitive biases: cognitive errors and emotional biases, respectively. Type of bias impacts whether the bias's impact can be altered.

- **Overconfidence**

For example, you may believe that you have good information, but you may also believe that you can act on it when it's most advantageous to you. These traders tend to trade more frequently and do not properly diversify their portfolios as a result of overconfidence.[12] This Bias can be avoided by -

Trading falls while investment rises. When you trade, keep in mind that you are competing with machines, institutional investors, and people all around the world who have better data and more expertise than you. As a matter of fact, the chances are in their favor. It's possible to

[12] Brad, '8 Common Investor Biases That Impact Investment Decisions' (*Sherman wealth*, 23 May 2016) <https://shermanwealth.com/common-investor-biases/> accessed 17 September 2021

accumulate money over time by investing for a longer time frame and mirroring the market indices.[13]

- **Regret**

If you're being honest, you've probably done this at least once. You had no doubt that a particular stock was inexpensive and had a limited downside. Despite your best efforts, the trade soon began to backfire on you. You're still convinced that you made the right decision by not selling while the loss was tiny. It's not a loss as long as you don't sell the position. However, you did not sell until the stock had lost the majority of its value, by which time it was too late. The sense of regret is something that we humans attempt to avoid as much as possible, and we will frequently go to tremendous lengths, sometimes ridiculous measures, to prevent it. This Bias Can Be Avoided by[14]-

Set trading rules that will not alter over time. Suppose a stock deal loses 9 percent of its value, and you want to get out of the trade. Put in place an automatic trailing stop that locks in profits when the stock rises above a specific threshold. Do not rely on emotion while setting up these levels.

- **Limited Attention Span**

There is no way the average investor has either the time or willingness to investigate each one individually. Herbert Simon, an economist, and psychologist described humans as having "bounded rationality." An individual makes decisions as per the limited information they have. This means that instead of making the most efficient decision, they'll make the most satisfactory one. As a result of these limits, most investors choose to only evaluate companies that come to their attention as a result of their study as well as through websites, media, acquaintances, or other sources. This Bias Can Be Avoided by -

[13] *Ibid*
[14] *Ibid*

You should be aware of the influence of the media on your trading activity. Even well-known equities that aren't well known can yield successful trades that you wouldn't have found if they were handed to you. Your selections shouldn't be influenced by media noise.

- **Chasing Trends**

Perhaps this can be termed as the most important trading bias. 39 percent of all new money invested in mutual funds went to the 10 percent of funds that had the best performance in the prior year, according to behavioral finance researchers. Despite the caveat that "previous performance is not predictive of future results," There are still retail traders who believe that they can anticipate the future by looking backward in time at the past. When humans discover patterns, they consider them to be true. This bias can be avoided by-

Most likely, the market has already noticed and exploited a pattern before you have. When you buy at the top, you incur the danger of watching the stock plummet in value. Warren Buffett exploits inefficiencies by purchasing when others are scared and selling when they are confident.[15] When following the herd, you're not likely to make a lot of money. Apart from the biases of investors, markets also react to these biases. That can be termed Market Anomalies.[16]

MARKET ANOMALY

A market anomaly is a price movement that deviates from the stock market's normal behavior.[17] Anomalies in financial markets sometimes emerge only once and then vanish, while others persist over time. In the stock market, traders and investors can take advantage of these anomalies.

1. Small firms tend to outperform

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[15] Lawrence A Cunningham, 'The Essays of Warren Buffett: Lessons for Corporate America' (*CS investing*, 1998) <http://csinvesting.org/wp-content/uploads/2015/05/Essays-of-Warren-Buffett-_-Lessons-for-Corporate-America_Cunningham.pdf> accessed 17 September 2021

[16] *Ibid*

[17] Madiha Latif and others, 'Market Efficiency, Market Anomalies, Causes, Evidences, and Some Behavioral Aspects of Market Anomalies' (*IISTE*, 2011) <https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.831.8635&rep=rep1&type=pdf> accessed 17 September 2021

When it comes to financial performance, smaller organizations tend to outperform larger ones. As far as anomalies go, the small-firm imp 18 act is understandable. The economic growth of a firm is ultimately what drives its stock performance, and smaller companies have considerably longer growth runways than larger companies. Companies like TATA may need to increase their sales by 6 billion rupees to expand by 10%, while a smaller company may just need to increase sales by 70 million rupees to grow by 10%. Since they have more room to expand and develop, smaller organizations tend to grow faster than larger ones.

2. Low Book Value

Extensive academic research has revealed that stocks with lower-than-average price-to-book ratios outperform the market. Buying a collection of stocks with low price/book ratios has been proved in numerous test portfolios to outperform the market. Although this anomaly makes sense in theory—unusually low-priced stocks should draw buyers' attention and revert to the mean—it is, regrettably, a relatively weak aberration. Though low price-to-book equities outperform as a group, individual performance is idiosyncratic, and large portfolios of low price-to-book stocks are required to reap the benefits.

3. Reversals

Some data suggests that stocks at either extreme of the performance spectrum tend to reverse course over time (usually a year)— Those who performed well yesterday will underperform tomorrow, and vice versa.[18] Statistics back this up, but the anomaly also makes sense when looking at the underlying investment principles. If a stock outperforms the market, chances are it is overpriced; conversely, underperformers are overpriced. It would seem reasonable to expect the overpriced companies to underperform (bringing their valuation back into line), while the underpriced ones thrive. Reversals are also likely to work because people expect them to. If enough investors consistently sell last year's winners and buy last year's losers, the stocks will move in the expected directions, creating a self-fulfilling anomaly.

4. **January Effect**

[18] *Ibid*

This phenomenon, known as the January effect, happens every year around this time. Stocks that underperformed in the fourth quarter of the previous year are expected to outperform the markets in January. It's hard to call the January impact an oddity when the reasoning is so evident. Investors frequently try to sell underperforming stocks late in the year so that their losses can be used to offset taxes on capital gains.[19] Many individuals prefer this as "tax-loss harvesting." We can even see how retained earnings can be used to demonstrate a profit.

"Tax selling" might push these equities to levels that appeal to investors in January despite the fact that selling pressure can be independent of a company's fundamentals or price. To avoid being caught up in the tax-loss selling, investors often delay buying weak stocks in the fourth quarter until January. As a result, before and after January 1, there is an excess of selling pressure and an excess of buying demand, resulting in this effect.[20]

5. Neglected Stocks

So-called neglected stocks, which are related to the "small-firm anomaly," are expected to exceed broad market averages. Stocks with weaker liquidity (lower trading volume) and less analyst backing show the neglected-firm effect. Investors expect these companies' stocks to rise in value as more people become aware of them. P/E ratios and the Relative Strength Index (RSI) are popular long-term purchasing indications. These show if a stock has been oversold and if it is fair to consider stockpiling. When the consequences of differences in market capitalization are removed, research reveals that this anomaly isn't true. Because of this, smaller, ignored firms perform better than larger, neglected ones. However, larger neglected stocks do not appear to perform better than would be predicted. As a result of this oddity, the performance of neglected stocks appears to be connected with size.

6. The Days of the week

[19] Honghui Chen, 'What Drives the January Effect?' (*SSRN Electronic Journal*, 2001) <https://www.researchgate.net/publication/228316760_What_Drives_the_January_Effect> accessed 18 September 2021

[20] *Ibid*

Even though the "Days of the Week" anomaly appears to be true, it makes little sense to proponents of efficient markets. According to recent studies, equities rise more on Fridays than Mondays. Not a significant difference, but a persistent one nonetheless. Fundamentally, there is no reason for this to be the case. Mental elements may be at play. As traders and investors look forward to the weekend, the market may be filled with a sense of confidence after the week. A second possibility is investors may use the weekend to study, stew, and worry about the market before returning to work on Monday.

ROLE OF BEHAVIORAL FINANCE IN INVESTING DECISIONS

To achieve a competitive advantage, institutional investors need to control their behavioral biases, according to a new study. This is especially true during COVID-19. Cognitive and emotional influences of human nature are taken into account in behavioral finance, which aims to understand how our innate tendencies cause us to behave.[21] Several biases are primarily motivated by emotions such as fear, and one of the most prominent of them is loss aversion, which became well recognized when COVID-19 became a worldwide pandemic.[22]

Behavioral finance has been the focus of a lot of research over the past decade. Psychology, sociology, and financial economics themes are being combined to create a substantial model of investor behavior in the financial markets.[23] In the current state of affairs, there is no specific behavioral finance theory. This subject was first explored by Shefrin & Statman (1994)[24], but the focus has shifted to identifying the features of behavioral decision-making that have systemic consequences on financial markets.[25] As opposed to claiming that every investor has the same illusion, behavioral finance focuses on taking the required steps to avoid such

[21] Chai M Tyng, 'The Influences of Emotion on Learning and Memory' (*Frontiers*, 2017) <https://doi.org/10.3389/fpsyg.2017.01454> accessed 17 September 2021

[22] Ellen Chang, 'Behavioral Finance Impacts Investor Decisions' (*US News*, 10 December 2020) <https://money.usnews.com/financial-advisors/articles/behavioral-finance-impacts-investor-decisions> accessed 17 September 2021

[23] A Senthamizhselvi and others, 'role of behavioural finance in portfolio selection and investment Decision-making' (2020) Journal of Critical Review

[24] Hersh Shefrin and others, 'Making Sense of Beta, Size and Book-to-Market' (*Journal of Portfolio Management*, 1994) <https://www.researchgate.net/publication/249961265_Making_Sense_of_Beta_Size_and_Book-to-Market> accessed 17 September 2021

[25] *Ibid*

illusions that influence the process of decision-making, especially when it comes to investing.[26] In a way, it can be said that personal biases lead to the formation of market anomalies.

INSIDER TRADING

Trading in shares and securities for gain (or to prevent a loss) at the expense of the uneducated public when the price of the securities would be materially affected if the information were disclosed is known as insider trading, and it is a criminal offense.[27] This is highly against the EMH theory which states that all the information is efficiently available to every person to make a rational decision. To quote Henry G. Manne: "Insider trading refers to corporate agents buying or selling their corporation stocks without disclosing to the public substantial information which they know but which has not changed the security's price."[28]

Insider trading was restricted for the first time in India in 1948 when a committee was formed to analyze and recommend appropriate limitations on short-swing gains that may be enforced. It was 1992 when the Securities and Exchange Board of India ("SEBI") implemented its first anti-insider trading law in the shape of the SEBI (Prohibition of Insider Trading) Regulations, 1992 ("1992 Regulations")[29]. Because of the Companies Act, 2013 ("The Act"), the notion of insider trading was integrated into Section 195.[30] "The "2015 Regulations" were introduced in 2015 by SEBI as a way to modernize the existing capital market regulatory structure, replacing the 1992 regulations. According to a recent report, the SEBI investigated over 70 incidents of insider trading in fiscal 2019.[31] This is a strong indication of the dangerous practice's rapid rise in popularity. The similar tendency may be observed in the world's most advanced stock markets. Since many people use this chance to buy or sell their own stock, the market's

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[26] Lee West, 'Behavioral Finance and Investment Processes by Michael M. Pompian, CFA, Colin McLean, FSIP, and Alistair Byrne, PhD, CFA' (*Medium*, 1 December 2016) <https://medium.com/@dwightleewest/reading-7-behavioral-finance-and-investment-processes-6cf9e417313e> accessed 17 September 2021

[27] *Ibid*

[28] Michael A Perino, *The Lost History of Insider Trading* (2019)

[29] SEBI (Prohibition of Insider Trading) Regulations 1992

[30] Companies Act 2013, s 195

[31] Kiran Kabtta Somvanshi, 'Sebi investigated an unprecedented number of alleged insider trading violations in FY19' (*Economic Times*, 30 January 2020) <https://economictimes.indiatimes.com/markets/stocks/news/sebi-investigated-an-unprecedented-number-of-alleged-insider-trading-violations-in-fy19/articleshow/73762248.cms> accessed 18 September 2021

attitude changes. Many retail investors want to follow in the footsteps of some heavyweights when they trade in their business shares, believing that it is an indicator of positive news regarding the company. As a result, people in significant positions within a firm can readily distort investors' perceptions of the organization.[32] These kinds of transactions can either attract or alienate investors. These transactions can be characterized as lawful or illegal insider trading depending on whether they are made following the laws of the stock market.

Section 2(g) of the SEBI (Prohibition of Insider Trading) Regulations, 2015,[33] an insider is somebody who has access to UPSI (unpublished price sensitive information) or is connected to UPSI. Anyone who possesses or has access to UPSI is an 'insider,' regardless of how they obtained the information in the first place. Section 2(n) of the SEBI (Prohibition of Insider Trading) Regulations, 2015,[34] UPSI denotes any information, relating to a firm or its shares, directly or indirectly, that is not generally available and which, upon becoming widely available, is expected to materially affect the price of the securities. **It includes –**

a) the financial results,

b) dividends,

c) capital structure changes and other transactions;

d) mergers, de-mergers, purchases, de-listings, disposals of business, and such other transactions;

e) changes in key managerial people.

The Insider Trading Regulations impose the following prohibitions on any communication or acquisition of UPSI, as well as trading:

[32] *Ibid*
[33] SEBI (Prohibition of Insider Trading) Regulations 2015, regulation 2(g)
[34] SEBI (Prohibition of Insider Trading) Regulations 2015, regulation 2(n)

- The Regulations limit/prohibit an insider from communicating, providing, or allowing access to any UPSI about a firm or securities listed to any individual, including other insiders.
- The Regulations limit/prohibit a person from obtaining any UPSI from an insider who is tied to a firm or stocks listed to any person, including other insiders.
- The Regulations restrict/prohibit an insider from trading in securities that are currently or proposed to be listed on a recognized stock exchange while in possession of UPSI.

Exceptions

To comply with the provisions of Regulation 3(1)[35] and 3,[36] only permissible reasons or the fulfillment of duties and legal obligations may result in the UPSI being communicated or obtained. It is only possible to obtain or communicate a UPSI in the following circumstances:

- In cases where the board of directors feels the proposed transaction is or will be in the company's best interest, UPSI may be required to make an open offer under the Takeover Code.
- As long as the board of directors believes the proposed transaction is or will be in the company's best interest, and the information constituting UPSI has been made publicly available at least two (2) trading days before the proposed transaction is implemented as per the board of directors, then an open offer under the Takeover Code is not required.

Exceptions related to Reg. 4(1)[37] of the Insider Trading Regulations:

- The transaction involves an off-market transfer between or among promoters who have the same UPSI and both parties made an educated trade decision. There would be no illegal gains because the parties have the same UPSI.
- In the circumstances where non-individual insiders are involved[38]:

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[35] SEBI (Prohibition of Insider Trading) Regulations 2015, regulation 3(1)
[36] SEBI (Prohibition of Insider Trading) Regulations 2015, regulation 3
[37] SEBI (Prohibition of Insider Trading) Regulations 2015, regulation 4
[38] *Ibid*

1. Individuals in possession of such UPSI differed from those making trading judgments or making decisions who did not hold such UPSI when they decided to trade.
2. Appropriate arrangements or arrangements were made to ensure that there is no violation of these regulations and that no UPSI was communicated to the individuals taking trading decisions or decisions by the individuals owning the information, and there is no evidence of such arrangements being breached.

It is prohibited to engage in insider trading under Section 195 of the Companies Act,[39] 2013.[40] This includes directors and key management staff. Insider trading and price-sensitive information are also defined here. If anyone violates the provisions of this section, he will be sentenced to imprisonment for a term of not less than five years or a fine of not less than five lakh rupees but not more than twenty-five crore rupees, or three times the amount of profits made from insider trading, whichever is greater, or both.[41]

Section 12 of the Companies Act, 2013[42] mandates that all public and private sector financial institutions, listed companies with the SEBI, and self-regulatory organizations adhere strictly to the rules in Schedule 1 of the act,[43] to prevent illegal insider trading in their firms. These rules also apply to recognized stock exchanges and public finance institutions. According to Deepak Chopra, "all great developments are preceded by chaos." The recent initiatives taken by SEBI in the form of establishing committees to advise solutions for boosting market surveillance and reprimanding Axis Bank for failing to reinforce its internal system in the wake of the recent WhatsApp leak case are certainly commendable.[44] The current regulations must be constantly updated and modified to make insider trading more deterrent, so that insiders are prevented from engaging in such trades, hence securing and enhancing investor trust in the securities market.

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[39] Companies Act 2013, s 195
[40] Hersh Shefrin (n 23)
[41] *Ibid*
[42] Companies Act 2013, s 12
[43] Companies Act 2013, schedule 1
[44] Jayshree P Upadhyay, 'WhatsApp leak case' (*Mint*, 28 December 2017) <https://www.livemint.com/Money/8tohyg1xsAJz93k559wfXL/WhatsApp-leak-case-Sebi-tells-Axis-Bank-to-probe-suspected.html> accessed 17 September 2021

CASE LAWS

Indiabulls Insider Trading Case

This is one of the most recent insider trading incidents to come to light. In this case, Indiabulls' executive director was accused of unlawfully making Rs. 87 lakhs by trading in Indiabulls while having access to unpublished secret information regarding Indiabulls venture limited, which is a subsidiary of Indiabulls, of selling land and property privately. According to the regulator, the executive director of Indiabulls Venture Limited was a member of the Indiabulls management committee, hence she was an insider, as was her husband. These illegal gains were made during the fiscal year 2017-19. The SEBI ordered that the IVF shall face serious criminal charges, and that the company's executive director, as well as her husband, forfeit Rs. 87.4 lakhs each.[45] SEBI was also instructed not to get into any loan agreements unless it had given its consent first.

Shreejesh Harindranath – SpiceJet General Manager Case

In a case dating back to 2016, SpiceJet's General Manager, Shreejesh Harindranath was found guilty of breaking the PIT (Prohibition of Insider Trading) Regulations. Mr. Harindranath bought around 3100 SpiceJet scrips based on previously unreleased, price-sensitive information on the profitability of the company. Mr. Harindrantha's conduct was deemed to violate PIT Regulations by SEBI since he gained from having access to price-sensitive information due to his position at the company.[46] In addition, the market regulator found Mr. Harindranath guilty of another offence of insider trading laws because he passed the knowledge on to his brother, Sandeep A.C., who bought 800 shares later. As a consequence,

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[45] 'Indiabulls insider trading case: Sebi impounds Rs 87.21 lakh from former director, spouse' (*Economic Times*, 24 May 2019) <https://m.economictimes.com/markets/stocks/news/indiabulls-insider-trading-case-sebi-impounds-rs-87-21-lakh-from-former-director-spouse/articleshow/69487936.cms> accessed 17 September 2021

[46] Adjudication Order in respect of Shreejesh Harindranath and Sandeep AC in the matter of SpiceJet Ltd., May 29 2020 <https://www.sebi.gov.in/enforcement/orders/may-2020/adjudication-order-in-respect-of-shreejesh-harindranath-and-sandeep-ac-in-the-matter-of-spicejet-ltd-_46733.html> accessed 17 September 2021

they each had to pay a penalty of Rs 23 lakh and Rs 12 lakh for indulging in the terrible conduct of trading with inside information.[47]

CONCLUSION

To summarise, we must acknowledge the flaws of conventional finance. In this perspective, the growth of behavioral finance is unquestionably a good factor in better understanding investor behavior. Behavioral finance explains why investors make illogical financial decisions. It reveals how investors' decisions are influenced by emotions and cognitive errors. Anchoring, overconfidence, herd behavior, over and under response, and loss aversion are some of the factors that lead to behavioral finance. In essence, the behavioral finance method studies investor behavioral tendencies and attempts to understand how these patterns influence investing decisions. Behavioral finance does not promise to invest miracles, but it may help investors be more aware of their behavior and, as a result, prevent mistakes that reduce their invested capital.

India is doing a good job of preventing insider trading through enacting legislation. Insider trading has been drastically reduced in recent years, according to statistics. It is owing to the SEBI's strict and hasty action, as well as the SEBI's strict regulations and requirements. It is now up to us to see whether the new revisions and amendments to the SEBI prohibition of insider trading rule have been successfully implemented and can prevent insider trading, however it falls short of closing gaps left by prior regulations. One of the biggest shortcomings of the legislation is the lack of a robust investigative system, which means that many cases involving insider trading are not properly handled. For example, in the cases of Hindustan Lever Limited v. SEBI and Dilip Pendse against SEBI, it is easy to see how, due to a lack of a thorough investigative procedure and evidence verification, many offenders escape

[47] *Ibid*

prosecution or receive small punishments.[48] We have come a long way but there is still a road to travel alongside investor's safety and efficient working of the markets.

[48] B Abhirami and others, 'Insider Trading Laws in India - Pertinence and Problems' (2018) The Law Brigade (Publishing) Group <https://thelawbrigade.com/wp-content/uploads/2019/05/Abhirami-Arya.pdf> accessed 17 September 2021