

Psychological impact of constant losses in trading among the youths from the North-East India

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Abstract

Profit and loss are an integral part of trading and financial participation in stock market both in equities and in trading. Constant losses and capital depletion over a period of time can have huge implications on the traders and to some extent on the investors as well. The present study explores the different psychological and emotional impact of such constant trading losses to the traders who belongs to the North-East India. Participants from Assam, Manipur and Nagaland who have been participating in the stock market either investing in equities or trading in options with minimum one year of experience were chosen for the study. The consequences of frequent and constant losses in trading includes physical, psychological, emotional, social and financial implications with more psychological toll on the traders. Psychological impact of such losses includes excessive stress, insomnia, impaired memory, paranoia, low self-esteem, suicidal thoughts, inappropriate decision making, over imagination, false perception etc. Inability to take balanced and constructive decision was reflected as immediate fall out during actual trading whereas impaired thoughts, low self-esteem, and insomnia were highlighted as long-term impacts among the participants.

Keywords: *Constant losses, psychological impact, stress, low self-esteem, impaired thoughts*

INTRODUCTION:

Constant losses in trading can have significant psychological impacts on youths, often leading to a range of emotional and cognitive responses: Sustained losses can lead to heightened levels of stress and anxiety. Youth may experience worry and fear about their financial situation, their ability to succeed in trading, and the consequences of continued losses. Youth may tie their self-worth to their trading success. Constant losses can erode self-esteem and lead to feelings of inadequacy or failure, especially if they perceive themselves as unable to meet their own or others' expectations. The persistent inability to achieve desired outcomes in trading can contribute to feelings of hopelessness and depression. Youth may experience a sense of helplessness and loss of interest in activities they once enjoyed.

Some youths may respond to losses by becoming more impulsive or engaging in riskier trading behaviour in an attempt to recoup their losses quickly. This can exacerbate their financial losses and increase their susceptibility to further negative psychological outcomes. Youth experiencing constant losses in trading may withdraw from social interactions out of embarrassment or shame. They may feel unable to relate to peers who appear to be successful in trading or fear judgment from others. Constant losses can reinforce cognitive biases such as loss aversion and the illusion of control. These biases can distort decision-making processes and lead to further losses as youths may make irrational choices driven by emotions rather than sound trading strategies.

Financial stress resulting from trading losses can strain relationships with family and friends. Youth may feel guilty about their losses or become defensive when confronted about their trading activities, leading to conflict and tension in relationships. Constant losses in trading can undermine youths' confidence in their ability to achieve their long-term financial goals. This can lead to a sense of disillusionment and uncertainty about their future prospects. Prolonged stress and anxiety associated with constant losses in trading can manifest in physical symptoms such as headaches, insomnia, and digestive issues. These symptoms further compound the negative impact on youths' overall well-being.

To mitigate these psychological impacts, it's important for youths involved in trading to practice risk management, seek support from mentors or mental health professionals, maintain a balanced perspective on success and failure, and consider diversifying their investments to reduce overall risk. Additionally, fostering a supportive environment where youths feel comfortable discussing their challenges and seeking guidance can help mitigate the negative psychological effects of constant losses in trading.

LITERATURE REVIEW:

The stock market serves as a crucial barometer of economic health, reflecting the sentiments, perceptions, and expectations of investors. Stock market trading, characterized by buying and selling of financial securities, influences various economic entities, including corporations, investors, and economies as a whole. This literature review aims to explore the multifaceted impacts of stock market trading on different stakeholders and the broader economy.

Market Efficiency and Information Transmission: Efficient stock markets play a pivotal role in allocating capital efficiently. Studies such as those by Fama (1970) and Grossman & Stiglitz (1980) established the concept of market efficiency, suggesting that stock prices fully reflect all available information. Stock market trading facilitates the transmission of information, ensuring that prices adjust rapidly to new information, thereby reflecting the true value of securities.

Capital Formation and Corporate Finance: Stock market trading provides a platform for corporations to raise capital for investment and expansion. Bhattacharya (1979) and Stiglitz (1985) highlighted the role of stock markets in facilitating corporate financing through the issuance of equity securities. Increased trading activity often correlates with heightened capital formation, enabling companies to fund projects, research, and development, which subsequently stimulate economic growth.

Liquidity and Market Stability: Trading activity enhances market liquidity, enabling investors to buy or sell securities without significantly impacting their prices. Amihud & Mendelson (1986) and Hasbrouck (2007) demonstrated the relationship between trading volume and liquidity, emphasizing its importance in ensuring market stability. However, excessive trading can also contribute to volatility, as seen in episodes of market crashes or speculative bubbles.

Investor Behaviour and Market Dynamics: Stock market trading is influenced by various factors, including investor sentiment, behavioural biases, and market psychology. Barber & Odean (2000) and Shiller (2015) explored how investor behaviour affects trading patterns and asset prices. Behavioural finance theories suggest that emotions such as fear and greed can lead to irrational decision-making, contributing to market inefficiencies and price anomalies.

Economic Growth and Macroeconomic Stability: The stock market serves as a barometer of economic health, reflecting the performance and expectations of businesses and investors. Studies by Levine & Zervos (1998) and Rajan & Zingales (2003) examined the relationship between stock market development and economic growth, highlighting the positive impact of well-functioning stock markets on capital allocation, innovation, and productivity. However, excessive volatility or market disruptions can pose risks to macroeconomic stability, as witnessed during financial crises.

Regulatory Framework and Market Integrity: Effective regulation is essential for maintaining trust and integrity in stock markets. Regulatory measures aim to safeguard investors, ensure fair trading practices, and prevent market manipulation. The works of Securities and Exchange Commission (SEC) and other regulatory bodies are crucial in establishing and enforcing rules that promote transparency, disclosure, and accountability in stock market trading.

OBJECTIVES:

The primary objectives of this research are:

1. To explore the different psychological and emotional impact of constant losses to the traders.
2. To study the coping mechanisms dealing with trading losses in the market.

METHODOLOGY:

The present study explores the different psychological and emotional impact of constant trading losses to the traders who belongs to the North-East India. Participants from Assam, Manipur and Nagaland who have been participating in the stock market either investing in equities or trading in options with minimum one year of experience were chosen for the study. A total of 30 (thirty) traders were selected for the study whose age group are between 18 and 30 years.

Semi-structured interview was used for data collection and the medium of interview was in English as all the participants are comfortable in English. Trading losses can evoke a wide range of emotions and experiences among youths, including frustration, anxiety, stress, and self-doubt. Semi-structured interviews provide a flexible and open-ended format for participants to express and explore these complex psychological phenomena in depth, allowing researchers to gain insights into the underlying causes and impacts of trading-related losses on youths' mental well-being. Overall, semi-structured interviews offer a valuable methodological approach for studying the psychological impact of constant losses in trading among youths, providing a nuanced understanding of the emotional, cognitive, and behavioural responses to trading-related losses and informing targeted interventions and support services to enhance mental health and resilience in this population.

Thematic Analysis (TA) was used for analysing the data which were collected using Semi-structured interview. Thematic analysis facilitates the contextualization of individual experiences within broader socio-cultural, familial, and environmental contexts. Researchers can explore how factors such as family dynamics, peer influences, cultural norms, financial literacy, and market conditions shape youths' psychological responses to trading losses. By identifying contextual themes, researchers can gain a deeper understanding of the situational factors that exacerbate or mitigate the psychological impact of trading losses and inform tailored interventions and support services. Thematic analysis offers a systematic and flexible approach for studying the psychological impact of constant losses in trading among youths, providing researchers with valuable insights into emotional responses, coping strategies, cognitive patterns, contextual influences, and actionable recommendations for supporting youths facing trading-related losses.

ANALYSIS:

The psychological impact of constant losses in trading among youths is a significant yet understudied area within the realm of financial psychology. With the proliferation of online trading platforms and easy access to financial markets, more young individuals are engaging in trading activities, exposing themselves to the inherent risks and uncertainties of the market. While financial education and literacy are promoted as essential skills for youths entering the trading arena, little attention has been given to the psychological consequences of sustained losses. This study seeks to address this gap by examining how constant losses in trading affect the mental well-being, emotional resilience, and cognitive processes of youths. By exploring the subjective experiences, perceptions, and coping mechanisms of young traders facing persistent losses, this research aims to uncover the underlying psychological mechanisms and contextual factors that contribute to the psychological impact of trading-related losses. Insights from this study can inform the development of targeted interventions, educational programs, and support services aimed at promoting mental health and resilience among youths engaged in trading activities, ultimately contributing to a more comprehensive understanding of the intersection between psychology and finance in the context of youth trading behaviour.

Following are some of the excerpts and their analysis:

Participant Psy X (19/M):

“I was really depressed after constant losses in the trading. There were many days and even weeks where my P&L is absolutely Red continuously despite of my best efforts to mitigate the constant losses. Due to this, I was unable to concentrate on my daily tasks and have huge impacts on my mental and emotional health. Not just that, I lost contact with friends, relatives and even my parents. The psychological pain is absolutely severe when the loss is in terms of money which I have saved”

The above narrative alludes that psychological and emotional pain are much more severe than that of the physical pain when it comes to financial loss in trading. Depression and anxiety were commonly reported among the participants due to constant losses in the stock market trading. The hope for getting profits from the market turns out to be a false dream for many participants in the study. The crucial aspect here is that these young traders are not ready to learn or leave the market despite of the constant losses which adversely affects their mental and emotional health.

Participant Psy D (24/F):

“I had sleepless nights, impaired thoughts, mentally so weak and exhausted, low self-esteem and a feeling of complete loss and meaning of life after experiencing so many loses in my trading. I thought that I will recover my losses but it kept on accumulating the losses day after day, weeks after weeks, months after months and years after years which is really unexpected. Can you imagine losing lakhs of rupees at my age and also being a woman!”

Symptoms such as low self-esteem, impaired thoughts and loss of meaning of life are very commonly reported among the young traders in this study. Financial losses in terms of lakhs of rupees at a very young age could have many negative consequences in life including long-term effects in their psychological, emotional, social and financial health. Need for counselling has also been reported among the female participants as many of them are unable to handle themselves with the losses.

Some of the important themes that emerged from the data are summarised below:

1. Stress and Anxiety
2. Low Self-Esteem
3. Depression
4. Impulsivity and Risk-taking Behaviour
5. Social Withdrawal
6. Cognitive Biases
7. Relationship Strain
8. Impact on Future Goals
9. Physical Symptoms

DISCUSSION:

Constant losses in trading can have profound psychological effects on individuals, impacting their emotional well-being, cognitive processes, and behavioural tendencies. Understanding these psychological impacts is crucial for traders, financial professionals, and mental health practitioners alike. Constant losses in trading often lead to a range of negative emotions, including anxiety, stress, and frustration. The uncertainty and unpredictability of financial markets can exacerbate these emotions, creating a sense of helplessness and insecurity. Traders may experience heightened levels of emotional arousal, which can interfere with their ability to make rational decisions and exacerbate feelings of distress. Trading losses can trigger cognitive biases and distortions that influence decision-making processes. Loss aversion, for example, causes individuals to feel the pain of losses more intensely than the pleasure of gains, leading to risk-averse behaviour and reluctance to accept losses.

Overconfidence bias may also be prevalent, as traders may overestimate their abilities and underestimate the likelihood of future losses, leading to reckless trading behaviour. Constant losses can result in maladaptive behavioural responses, such as revenge trading and chasing losses. Revenge trading occurs when traders

attempt to recover their losses by engaging in impulsive and high-risk trading activities, often leading to further losses. Chasing losses involves increasing the size or frequency of trades in an attempt to recoup previous losses, which can exacerbate financial losses and perpetuate a cycle of negative outcomes. For many traders, their success or failure in trading becomes intertwined with their self-esteem and sense of identity.

Constant losses may lead to feelings of inadequacy, self-doubt, and shame, particularly if trading performance is perceived as a reflection of personal worth. This can have long-lasting effects on self-confidence and motivation, potentially impacting other areas of life beyond trading. Trading losses can also affect social relationships and interpersonal dynamics. Traders may feel isolated or alienated from friends and family members due to the stigma associated with financial failure. Additionally, financial strain resulting from trading losses may lead to conflicts within relationships, further exacerbating feelings of stress and emotional distress. The psychological impact of constant losses in trading can have long-term consequences if left unaddressed. Chronic stress and anxiety may contribute to the development of mental health disorders such as depression or generalized anxiety disorder. Moreover, repeated exposure to financial losses can erode confidence and resilience, making it increasingly difficult for traders to recover and adapt to changing market conditions.

Constant losses in trading can have significant psychological ramifications, affecting individuals' emotional well-being, cognitive processes, and behavioural tendencies. It is essential for traders to recognize and address these psychological impacts proactively, seeking support from mental health professionals or peer groups when needed. Additionally, financial institutions and policymakers have a role to play in promoting responsible trading practices and providing resources to support traders' mental health and well-being.

FUTURE DIRECTIONS AND CHALLENGES:

Some of the important and crucial future directions and challenges relating to constant losses in trading among youths are:

1. **Psychological Support Services:** As young traders experience losses, there's a growing need for psychological support services tailored to their unique circumstances. Providing access to counselling, support groups, and mental health resources can help mitigate the negative psychological effects of trading losses, such as stress, anxiety, and depression.
2. **Education on Emotional Resilience:** Investing education should include components focused on emotional resilience and coping strategies for dealing with losses. Teaching young traders to manage their emotions, maintain perspective, and learn from setbacks can help build psychological strength and reduce the impact of losses on mental health.
3. **Risk Management Strategies:** Emphasizing risk management strategies is essential for minimizing the psychological impact of trading losses. Educating young traders about diversification, position sizing, and setting realistic expectations can help mitigate the emotional distress associated with significant financial setbacks.
4. **Behavioural Finance Research:** Further research in the field of behavioural finance is needed to better understand the psychological factors influencing trading behaviour among youths. Studying cognitive biases, decision-making processes, and emotional responses to losses can provide insights into effective interventions and support mechanisms.
5. **Regulatory Safeguards:** Regulators should consider implementing safeguards to protect young traders from excessive risk-taking and potential psychological harm. This may include imposing trading limits, enhancing disclosure requirements, and implementing mechanisms to detect and prevent predatory trading practices targeting vulnerable individuals.
6. **Ethical Considerations:** Financial institutions and trading platforms have a responsibility to prioritize ethical practices and safeguard the interests of their young clientele. Implementing transparent fee structures, providing clear risk disclosures, and promoting responsible trading behaviour can help mitigate the psychological impact of losses and build trust among young investors.

CONCLUSION:

In conclusion, the study of the psychological impact of constant losses in trading among youths' sheds light on the profound implications of financial setbacks on mental well-being. It underscores the urgent need for targeted interventions and support mechanisms to address the emotional distress young traders and investors may experience. As trading becomes more accessible and prevalent among youths, understanding and mitigating the negative psychological effects of sustained losses is paramount. Effective interventions should focus not only on enhancing financial literacy but also on promoting emotional resilience and coping strategies. By equipping young traders with tools to manage stress, anxiety, and feelings of failure, we can help mitigate the adverse psychological effects of trading losses and foster a healthier relationship with investing.

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