

Risky routines

Indians are losing big on the stockmarket

The middle-class enthusiasm for derivatives is a relatively new phenomenon

4月 16, 2025 07:03 上午 | Mumbai



“IT HURTS. IT’S irritating. You want to be [left] alone,” says Jagdish, a 39-year-old IT systems manager, whose dreams of buying a new house were shattered after he lost a small fortune gambling in India’s stockmarket. Even before President Donald Trump’s so-called reciprocal tariffs shook global markets, the Indian stockmarket had been on a rollercoaster. The benchmark BSE Sensex is down 11% from its peak in September last year.

Worst affected were those using high-risk leveraged instruments. The Securities and Exchange Board of India (SEBI), the regulator, estimates that 11m retail investors lost \$21.6bn trading in futures and options in three years until March 2024; only 7% turned a profit. The reality check has been brutal, especially for teenagers and young adults getting caught in the craze, says Dr Pankaj Verma, a psychiatrist in Delhi. Shekhar Kunte, a Mumbai-based hypnotist who usually helps students focus on their studies or cures jilted lovers, now finds himself treating impulsive traders who cannot resist the dopamine rush of high-risk speculation. "It's a new-age disease", he says. "It's mass hysteria".

Last October SEBI introduced stricter rules. The impact was immediate. According to Bloomberg, a financial firm, retail trading activity in India's options market has fallen to its lowest level in three years.

Middle-class India's enthusiasm for equities, and especially for derivatives, is a relatively new phenomenon. Older generations prized frugality. Most Indians still prefer to invest in gold and fixed deposits that offer low but steady returns. But a mix of rising incomes and easy access through apps has lured millions of new investors to equity markets. Last year direct retail inflows on the National Stock Exchange reached a three-year high, at nearly \$12bn. A wide-ranging and hugely successful advertising campaign has seen mutual fund investments grow to \$3bn in December, from \$993m five years ago.

While mutual funds offer relatively higher returns than conservative assets, futures and options provide an extra zing. But they were not designed for low-information retail investors, says Shinod Somasundaram of Standard Chartered Bank. They were intended as a hedge against market downturns, offering a safety net to protect portfolios and manage risks during sudden drops. What investors are doing today is "playing with fire", he says.

Since the pandemic, the smartphone has become a virtual slot-machine. TV advertisements tout card games and digital currencies. Chainalysis, a data firm, says India led 151 countries in crypto adoption for a second year running in 2024. But while the government cracked down on cryptocurrencies and illegal sports betting, stockmarket speculation is still rampant. Last year Nirmala Sitharaman, the finance minister, sounded an alarm. "Any unchecked explosion in retail trading of futures and options can create future challenges, not just for the markets, but for investor sentiment and household finances." For a few investors, the lesson is finally sinking in. "Now I only think long term," says Jagdish. "The tension is simply not worth it." ■

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