



RETAIL INVESTOR BEHAVIOR AND TRADING PATTERNS IN IPO MARKETS: EVIDENCE, MECHANISMS, AND FUTURE RESEARCH AGENDA

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ABSTRACT

Retail investors constitute a significant and growing participant segment in initial public offering (IPO) markets, particularly in emerging economies such as India where digital platforms have democratized access to investment opportunities. This paper provides a comprehensive synthesis of evidence on retail investor behavior in IPOs, focusing on their subscription patterns, post-listing trading decisions, information processing mechanisms, and vulnerability to sentiment-driven and attention-based trading. Using data from 188 Web of Science records on Indian IPOs and over 100 complementary peer-reviewed sources, we examine how retail investors differ fundamentally from institutional counterparts in their approach to IPO participation. Our findings reveal that retail investors are predominantly sentiment-driven, attention-based traders who rely heavily on prospectus disclosure and increasingly on social media and finfluencer endorsements. We identify critical gaps in existing research from the retail investor perspective, including limited understanding of how digital platforms and algorithmic information delivery affect retail trading decisions, sparse evidence on the long-term wealth consequences of retail IPO participation, and insufficient investigation of behavioral intervention mechanisms that could improve retail investment outcomes. We articulate a forward-looking research agenda that prioritizes retail investor protection, financial literacy enhancement, and market design improvements that account for behavioral heterogeneity. This paper contributes to the growing field of behavioral finance by centering the retail investor experience and identifying actionable pathways for improving

retail outcomes in primary and secondary IPO markets.

KEYWORDS: retail investors, initial public offerings, sentiment, attention, behavioral finance, emerging markets, financial literacy, investor protection, digital platforms, finfluencers.

INTRODUCTION

Initial public offerings (IPOs) represent a critical juncture in the lifecycle of firms and in the investment experience of individual investors. For retail investors, IPO participation offers the prospect of early-stage equity access and potential long-term wealth accumulation; for firms, retail participation provides market legitimacy and broader shareholder bases (Ritter & Welch, 2002; Sherman & Titman, 2002). However, the evidence increasingly demonstrates that retail investors systematically underperform in IPO markets, experiencing losses on early trades, excessive turnover, and vulnerability to sentiment-driven mispricing (Clarke et al., 2016; Barber & Odean, 2008; Raja Guru et al., 2025).

The primary motivation for centering this review on retail investor behavior stems from several observations. First, retail investor participation in IPOs is substantial and growing in emerging markets like India, where digital platforms (Robinhood-style trading apps, social media information flows, finfluencer recommendations) have reduced barriers to entry and information access (Barber et al., 2022). Second, traditional IPO research, while comprehensive on institutional mechanisms and underpricing determinants, has historically treated retail investors as a residual category—uninteresting, undifferentiated, and peripheral to price discovery (Ibbotson, 1975; Ritter, 1984). Yet retail investors exhibit systematic behavioral patterns that are central to understanding IPO market microstructure, liquidity, volatility, and long-run performance (Clarke et al., 2016; Da et al., 2015). Third, recent evidence on finfluencers, social media effects, and emotion-driven trading has shifted the frontier of understanding retail behavior, yet gaps remain in understanding how retail investors process information, form expectations, and make allocation decisions in the context of IPOs (Raja Guru et al., 2025; Mohammad et al., 2025).

Research Objectives and Scope

This paper synthesizes evidence on retail investor behavior in IPO markets with the following core objectives:

1. **To characterize retail investor trading patterns** in IPO subscription, post-listing

participation, and long-term holding periods, documenting empirical regularities that distinguish retail from institutional approaches.

2. **To identify mechanisms driving retail trading decisions**, including the roles of sentiment, attention, social media, finfluencer effects, disclosure sensitivity, and herd behavior.
3. **To examine information asymmetries specific to retail investors**, including asymmetries in fundamental knowledge, risk perception, emotional processing, and access to high-quality advice.
4. **To identify critical gaps in the retail investor literature** and propose a forward-looking research agenda that prioritizes retail investor welfare, financial literacy, market design improvements, and behavioral interventions.

To translate research evidence into implications for policy, market design, and financial innovation aimed at improving retail investor outcomes in IPO markets.

Paper Organization

The paper proceeds as follows. Section 2 documents retail trading patterns and subscription behavior in IPOs, drawing on evidence from India, the United States, and other developed and emerging markets. Section 3 examines mechanisms driving retail investor decisions: sentiment, attention, social media, disclosure sensitivity, and herding. Section 4 analyzes information asymmetries specific to retail investors. Section 5 identifies critical research gaps and proposes a comprehensive research agenda. Section 6 discusses policy and practical implications. Section 7 concludes.

Retail Investor Trading Patterns and Subscription Behavior in IPOs

Subscription Aggressiveness and Issue Popularity

A central finding in IPO research is that retail investor demand is strongly associated with issue popularity and underpricing expectations, rather than with fundamental firm quality (Clarke et al., 2016; Barber & Odean, 2008). Clarke et al. (2016) provide direct evidence using India's transparent bookbuilding system, which discloses real-time subscription levels by investor category (retail, HNI/non-institutional, qualified institutional buyers). They demonstrate that retail subscription demand is highly elastic with respect to popularity signals: as institutional demand increases, retail investors observe this signal and surge into the retail subscription category, driving retail oversubscription in popular IPOs (Shefrin & Statman, 1985; Barberis & Thaler, 2003).

This pattern reflects a crucial asymmetry. While institutional investors can conduct independent fundamental analysis and form expectations about IPO value independent of market signals, retail investors—lacking time, resources, and analytical sophistication—rely on observable demand signals as proxies for quality (Kahneman, 1973; Simon, 1955). When retail investors observe that qualified institutional buyers (QIBs) are subscribing heavily, they interpret this as a positive signal and participate accordingly. This mechanism introduces a form of information asymmetry rooted not in differential access to information, but in differential capability to process and synthesize information independently.

Allotment Constraints and Secondary Market Entry

Clarke et al. (2016) document a further critical pattern: retail subscription demand in popular IPOs frequently exceeds available allotment for the retail category. The regulatory allocation framework in India caps retail participation at a certain percentage of the total offering, creating a situation where many retail investors' bids are not met (Rock, 1986; Hanley, 1993). Importantly, unmet retail demand spills into the secondary market, where retail investors who failed to receive allotments in the IPO attempt to purchase shares on listing day at higher prices—precisely when momentum from the listing pop is driving prices upward.

The mechanism is as follows: (1) retail investors place aggressive bids in the primary market; (2) many bids are unmet due to allotment caps; (3) these investors, still desirous of participation, enter the secondary market; (4) their buy orders, combined with those of allottees taking profits and selling, drive high first-day volume and sustained momentum (Ibbotson, 1975; Ritter, 1984). The net result is that first-day underpricing—traditionally attributed to information asymmetry and winners curse mechanisms—is substantially amplified by retail investor demand spillover. Clarke et al. (2016) estimate that approximately 23% of average first-day returns in their Indian sample is attributable to this spillover effect, a substantial portion of observed underpricing.

Post-Listing Turnover and Early-Trade Losses

Post-listing, retail investors display remarkably high early-trading turnover, concentrated in the first few days and weeks following listing (Barber & Odean, 2008; Da et al., 2015). This pattern is inconsistent with fundamental long-term buy-and-hold behavior. Instead, it reflects sentiment-driven, momentum-based trading: retail investors buy shares on or shortly after listing day, when momentum-driven price movements are most pronounced, and then sell within days or weeks as momentum fades.

This behavior generates systematic losses for retail participants. Barber & Odean (2008) document that retail investor trading in general (not specific to IPOs) generates wealth losses through excessive turnover and poor timing. In the IPO context, Clarke et al. (2016) estimate that retail investors who purchase in the secondary market on listing day—having failed to receive primary market allotments—earn negative returns within weeks, suggesting they systematically buy high and sell low. This "winners curse" phenomenon (Rock, 1986) is particularly pronounced among retail investors, who lack the analytical capacity to distinguish between temporary momentum-driven price movements and fundamental valuation changes.

Event Attention and Non-Fundamental Drivers

Nandy & Wen (2025) provide additional evidence that retail trading around going-public events is driven by event attention and salience rather than by fundamental analysis. They examine retail investor participation in SPACs (Special Purpose Acquisition Companies)—an alternative going-public mechanism that differs fundamentally from IPOs in its risk profile, time-to-revenue, and governance structure.

Their key finding: retail interest in SPACs peaks around the announcement of acquisition targets and remains elevated through and after the merger, even though the economic fundamentals of SPACs differ substantially from traditional IPOs. If retail investors were conducting fundamental analysis, one would expect different subscription patterns for SPACs versus IPOs, reflecting different risk and return profiles. Instead, retail participation appears driven primarily by event salience—the fact that a going-public event is occurring—rather than by detailed valuation analysis (Kahneman, 1973; Simon, 1955; Barber et al., 2008).

This finding has profound implications: it suggests that retail investors do not participate in IPOs and going-public events primarily because they perceive a valuation opportunity, but because these events capture attention and provide a simple, accessible entry point to equity participation. The psychological and cognitive availability of the event, not the attractiveness of the investment, drives retail participation.

Mechanisms Driving Retail Investor Behavior: Sentiment, Attention, and Social Influence

Sentiment and Emotional Drivers

A major recent development in understanding retail investor behavior has been the

recognition that sentiment, emotions, and psychological states systematically influence trading decisions (Barberis & Thaler, 2003; Shefrin & Statman, 1985). Retail investors, more so than institutions, rely on emotional and sentiment cues when forming expectations about investment attractiveness.

Raja Guru et al. (2025) provide the most direct evidence on this mechanism in the IPO context, examining 395 Indian IPOs from 2014–2024. They measure finfluencer endorsement through social media metrics (posts, followers, engagement) and find that IPOs with higher finfluencer backing experience significantly elevated initial returns and underpricing compared to non-endorsed IPOs with identical fundamental characteristics. Critically, they distinguish finfluencer effects from analyst recommendation effects: traditional analyst recommendations yield more moderate initial returns and do not amplify underpricing beyond levels consistent with fundamental valuation (Womack, 1996; Dorn, 2009), whereas finfluencer endorsements exert substantially stronger amplification effects (Da et al., 2015; Tetlock, 2007).

The mechanisms through which finfluencers amplify underpricing operate through three channels: (1) **salience**, whereby finfluencers' posts increase attention to an IPO and raise perceived prominence (Kahneman, 1973; Barber & Odean, 2008); (2) **herding**, whereby retail investors imitate finfluencer recommendations and thereby coordinate their demand (Shefrin & Statman, 1985; Barberis & Thaler, 2003); and (3) **retail overreaction**, whereby retail investors' purchases in response to finfluencer posts drive prices above fundamental values, creating apparent underpricing that subsequently partially reverses in longer- horizon trading (De Bondt & Thaler, 1985; Ritter, 1991).

Complementary evidence from Mohammad, Sial, Jo, and Comite (2025) extends emotional mechanisms beyond IPOs to general investor decision-making. Using text analysis of news and social media, they extract nine emotion dimensions (happiness, anger, fear, surprise, etc.) and relate emotional tone to investment behavior and returns. Key findings include:

(1) positive emotional tone in news is associated with stronger market reactions to positive earnings surprises and announcements (Verrecchia, 2001; Healy & Palepu, 2001); (2) negative emotions amplify downside reactions (Shefrin & Statman, 1985); and (3) news-based emotions exert larger aggregate effects on asset prices than social media emotions, possibly because news commands more sustained attention.

Importantly, Mohammad et al. (2025) explicitly call for future research to examine emotional channels in IPOs and test whether retail and institutional investors respond differently to emotional cues. The implication is clear: emotional and attentional asymmetries create systematic behavioral differences between retail and institutional investors.

Attention-Based Trading and Digital Platforms

The rise of digital trading platforms (Robinhood, Zerodha, discount brokers) has fundamentally altered the information environment for retail investors. These platforms reduce friction, lower trading costs, and provide algorithmic cues about which securities are trending, popular, or generating social media attention (Barber et al., 2022).

Da et al. (2015) develop the "attention hypothesis" for retail investor trading: retail investors direct capital toward securities that capture their attention through news, analyst mentions, corporate announcements, or social media. Attention is inherently limited; retail investors cannot monitor all securities simultaneously. Instead, they allocate attention to securities that are salient—in the news, mentioned by peers, recommended by influencers, or exhibiting extreme price movements.

In the IPO context, newly listed firms are inherently attention-capturing: they are featured in financial news, discussed on social media, and exhibit high volatility. Retail investors, particularly those using digital platforms that highlight trending or popular securities, are drawn to IPOs as attention-capture mechanisms. The first-day listing pop and high trading volume further amplify attention and visibility, creating a virtuous cycle of attention-driven retail demand.

This mechanism has important implications: it means retail IPO participation is not driven primarily by fundamental analysis or by perceived valuation opportunities, but by the availability heuristic and attention constraints. Firms with better-known management teams, innovative business models, or strong social media presence will attract disproportionate retail demand, independent of fundamental valuation.

Disclosure Sensitivity and Prospectus Reading

Interestingly, retail investors do appear sensitive to disclosure quantity and quality, though in ways distinct from institutional investors. Cho et al. (2024) exploit a regulatory change in Korea that mandated additional disclosure items in IPO prospectuses. *A priori*, longer

prospectuses could deter retail investors if they perceive them as complex or information-overloaded (Simon, 1955). However, empirical results show the opposite: retail subscription increases post-reform, especially for IPOs with longer expanded sections.

Cho et al. (2024) interpret this as evidence that retail investors welcome additional public information, particularly when they lack access to private information or analyst coverage (Verrecchia, 2001). From a retail investor's perspective, a longer, more detailed prospectus is informative rather than burdensome. This finding suggests that regulatory mandates to expand disclosure—while having limited impact on institutional behavior—can improve retail investor outcomes by providing more information upon which to base decisions.

However, this finding must be interpreted cautiously. Retail investors may respond to longer prospectuses not because they read them comprehensively, but because prospectus length serves as a quality signal: firms willing to provide extensive disclosure are perceived as more trustworthy or better-managed (Verrecchia, 2001). The mechanism may be psychological signaling rather than information content processing.

Herding and Information Cascades

Retail investors display strong herding behavior in IPOs, a pattern documented in both developed and emerging markets (Shefrin & Statman, 1985; Barberis & Thaler, 2003). When retail investors observe that other retail participants (visible through subscription data in transparent bookbuilding systems) or institutional investors are subscribing heavily to an IPO, they interpret this as a positive signal and increase their own demand (Clarke et al., 2016).

This herding behavior can be rational in information-rich environments where observing others' behavior reveals private information. However, in IPO contexts where subscription data are disclosed in real-time to participants, herding can become self-reinforcing and destabilizing. Retail investors see high institutional demand, interpret it as a quality signal, and surge into an IPO, driving up subscription levels further. This cascade continues until allotment caps are reached, creating artificial demand and oversubscription patterns disconnected from fundamentals.

Information Asymmetries Specific to Retail Investors

Fundamental Knowledge Asymmetry

Retail investors suffer from substantial asymmetries relative to institutional investors in fundamental knowledge about firm characteristics, industry dynamics, competitive

positioning, and financial analysis techniques. While institutions employ teams of specialized analysts and portfolio managers, retail investors typically rely on summary information available in prospectuses, media coverage, or finfluencer commentary.

This knowledge asymmetry directly impacts valuation accuracy. He et al. (2025) document that institutional investors are sensitive to the granularity of risk disclosure in prospectuses—they read and process detailed risk information and adjust their subscription decisions accordingly. By contrast, retail investors appear less sensitive to specific risk disclosures, instead responding to aggregate signals like prospectus length or overall tone.

The implication is that retail investors are less able to conduct independent risk assessment and thus vulnerable to underestimating risks, particularly in complex firms or industries unfamiliar to them. This creates a "adverse selection" dynamic where retail investors, lacking sophisticated risk analysis, are disproportionately represented in riskier or lower-quality IPOs.

Advice and Intermediary Access Asymmetry

Institutional investors have direct access to underwriter advice, independent research, and sell-side analyst recommendations. Retail investors, particularly in emerging markets, have more limited access to high-quality professional advice. While some retail investors work with financial advisors, many conduct self-directed trading with limited professional guidance.

This intermediary access asymmetry is particularly acute in digital trading environments, where retail investors conduct transactions independently, often without financial advisor intermediation. The quality of information available through digital platforms varies substantially—some provide robust fundamental analysis, others provide primarily sentiment-driven content (news, social media trends, "hot picks").

Emotional and Cognitive Processing Asymmetry

Beyond information differences, retail investors face asymmetries in emotional and cognitive processing of available information. The behavioral finance literature documents numerous systematic biases affecting retail investors: overconfidence (Barber & Odean, 2008), disposition effect (Shefrin & Statman, 1985), availability bias (Tversky & Kahneman, 1973), and herding (Shefrin & Statman, 1985).

These biases appear to affect retail investors more substantially than institutions, likely because institutions employ processes (committees, documentation requirements, quantitative models) that institutionalize rationality and constrain individual biases. Retail investors, trading with personal capital and driven by personal emotions and beliefs, are less constrained and more susceptible to emotional trading (Barber et al., 2022).

In the IPO context, emotional asymmetries manifest in excessive early-trade turnover, attention-driven participation decisions, and vulnerability to finfluencer influence. Retail investors are more prone to "fear of missing out" (FOMO), herding excitement, and emotional overreaction to news and social media sentiment regarding newly listed firms.

Time-Horizon and Holding-Period Asymmetry

Retail investors participating in IPOs exhibit substantially shorter holding periods than institutional investors (Clarke et al., 2016; Barber & Odean, 2008). While institutions often maintain IPO positions for extended periods, conducting performance evaluation and rebalancing on longer-term cycles, retail investors frequently liquidate IPO positions within weeks.

This time-horizon asymmetry has important consequences. Short-holding-period retail investors bear the brunt of price momentum reversal—they buy during the listing-day pop and sell within days as momentum fades and overvaluation corrects. Longer-holding-period institutional investors experience the reversal passively, but also capture gains from any fundamental-driven appreciation as the market corrects its overvaluation.

The evidence suggests that retail investors could substantially improve returns by simply extending holding periods and avoiding early liquidation around momentum reversals. However, behavioral patterns (impatience, overconfidence, attention to short-term movements) and information asymmetries (lack of confidence to hold through volatility) prevent many retail investors from adopting longer-term perspectives.

Critical Research Gaps and Future Agenda from the Retail Investor Perspective

Despite growing research interest in retail investor behavior, substantial gaps remain in our understanding of retail participation in IPO markets. Below, we identify critical gaps and propose a forward-looking research agenda.

Retail Outcomes and Wealth Consequences

Gap: Sparse evidence on the long-term wealth consequences of retail IPO participation.

There is surprisingly limited research tracking post-IPO returns earned by retail investors holding IPO shares, decomposing these returns into allocation effects (whether retail receive allotments in quality IPOs), timing effects (whether retail buy/sell at opportune times), and selection effects (whether retail choose which IPOs to participate in based on predictive information).

Research agenda: Studies employing retail investor-level trading data (from discount brokers or platforms) should track post-IPO returns separately for retail participants, comparing wealth outcomes against passive benchmarks and institutional investor returns. Such analysis would quantify the true economic cost of retail participation in IPOs and identify whether costs are concentrated in particular subsegments (e.g., retail using social media signals versus traditional disclosure) or particular IPO characteristics (e.g., high-volatility versus blue-chip firms).

Digital Platforms, Algorithmic Information Delivery, and Behavioral Nudges

Gap: Limited understanding of how digital trading platforms shape retail investor information processing and decision-making in IPOs.

Modern retail investors access IPO information and execute trades through digital platforms (apps, web brokers) that employ algorithmic curation of information, ranking of "trending" securities, push notifications about price movements, and algorithmic order suggestions. These platforms fundamentally alter the information environment relative to traditional broker-mediated retail investing. Yet research examining how platform design, algorithmic cues, and information architecture affect retail IPO decisions remains sparse.

Research agenda: Behavioral research collaboration with digital platforms could examine how algorithmic ranking of IPOs, notification timing, visual cues about "hot" securities, and one-click trading mechanics affect retail subscription and trading decisions. Randomized experiments manipulating platform features could estimate causal effects on retail behavior and outcomes. Such research would inform evidence-based platform design that improves rather than exploits retail investor behavior.

Finfluencer Effects, Source Credibility, and Replicability Gap: Limited evidence on source credibility, commercial interests, and replicability of finfluencer IPO effects across markets and time periods.

Raja Guru et al. (2025) provide compelling evidence that finfluencers amplify IPO underpricing in India. However, questions remain about the persistence, replicability, and mechanisms. Do finfluencer effects diminish over time as retail investors learn? Do they vary across different finfluencer types (retail celebrities, professional advisors, social media personalities)? Are effects stronger for particular segments of retail investors (novices versus experienced)?

Additionally, finfluencer recommendations may generate conflicts of interest: finfluencers may receive compensation for recommending IPOs, creating incentive misalignment with their followers. Yet little research examines disclosure of these conflicts or their effects on retail outcomes.

Research agenda: Multi-market and multi-year studies examining finfluencer effects, separating effects of social proof from effects of information content. Research on finfluencer conflict-of-interest disclosures, their effectiveness in reducing retail vulnerability, and market-design improvements requiring transparency of incentive structures.

Behavioral Interventions and Retail Investor Protection

Gap: Limited evidence on the effectiveness of behavioral interventions designed to improve retail investor decision-making in IPOs.

While policymakers and regulators increasingly recognize the behavioral vulnerabilities of retail investors, few rigorous studies examine the effectiveness of potential interventions: mandatory waiting periods before IPO trading, simplified prospectuses with behavioral cues toward fundamental metrics, algorithmic warnings against excessive early turnover, or financial literacy programs targeting IPO-specific decision-making.

Research agenda: Pilot programs testing behavioral interventions—in partnership with regulators, platforms, or firms—to identify mechanisms that improve retail outcomes. Randomized experiments could test interventions such as: (1) mandatory disclosure of finfluencer incentives and past performance predictions; (2) simplified prospectus formats that highlight fundamental risk metrics and deemphasize sentiment cues; (3) algorithmic warnings against trading in the first X days of listing; (4) financial literacy modules teaching about IPO underpricing, momentum reversal, and long-term buy-and-hold strategies.

Financial Literacy and IPO-Specific Knowledge

Gap: Sparse evidence on the determinants and consequences of financial literacy specific to IPO markets.

General financial literacy has been shown to predict individual investment outcomes (Hoffmann & Post, 2014). However, IPO markets have distinctive features (allocation mechanisms, listing-day volatility, institutional participation signals) that require specific knowledge. Few studies examine IPO-specific literacy—whether and how individual retail investors understand these features, and whether literacy predicts IPO trading outcomes.

Research agenda: Surveys and field experiments examining IPO-specific literacy (understanding of allocation mechanisms, awareness of underpricing risks, knowledge of listing-day momentum patterns). Correlational studies linking literacy to trading outcomes. Intervention studies testing whether targeted financial literacy programs specific to IPO markets improve retail decision-making and long-term returns.

Market Microstructure and Retail Participation Constraints

Gap: Limited granular order-book analysis of retail participation in IPOs, separating retail behavior by order type and execution timing.

Existing research uses aggregate subscription data (total retail demand) and post-listing holdings data. However, more granular order-book data—including retail limit orders, retail market orders, order cancellations, and execution times—could reveal fine-grained patterns of retail trading strategy, herding dynamics, and information-processing speed.

Research agenda: Access to order-book data from stock exchanges (increasingly available in emerging markets) could enable studies of retail intraday trading patterns around IPO listing, timing of retail order submissions (do retail investors rush to submit orders at particular moments?), and correlations between retail order flow and price movements. Such microstructure research could identify moments and mechanisms where retail herding amplifies or dampens listing-day volatility.

Retail Investor Heterogeneity: Demographic, Socioeconomic, and Psychological Dimensions

Gap: Limited understanding of heterogeneity among retail investors themselves—how demographic, socioeconomic, and psychological characteristics predict IPO participation and trading outcomes.

Existing research treats "retail investors" as relatively homogeneous. However, retail

investors vary substantially in age, education, income, financial knowledge, risk preferences, and psychological traits (overconfidence, impatience, emotional reactivity). These individual differences likely predict different patterns of IPO participation and outcomes.

Research agenda: Studies linking individual-level retail investor characteristics (from survey data or administrative records) to IPO participation decisions and post-IPO returns. Identification of high-vulnerability retail segments (e.g., novice traders, high-overconfidence individuals, those relying on social media information) that might benefit from targeted protection or intervention.

Regulatory Design and Market Mechanisms from the Retail Perspective

Gap: Limited research on how IPO regulatory and market design features affect retail investor outcomes specifically.

While prior research examines how transparent bookbuilding, allocation rules, and disclosure mandates affect overall IPO pricing and institutional behavior, few studies examine effects specifically on retail outcomes. Does transparent bookbuilding amplify retail herding and harm retail welfare (Clarke et al., 2016)? Would less transparency, sequential pricing mechanisms, or altered allocation rules improve retail outcomes?

Research agenda: Comparative research across markets with different IPO mechanisms, examining retail-specific outcomes (allocation rates, post-IPO returns, turnover). Quasi-experimental studies exploiting regulatory changes to estimate causal effects on retail outcomes. Policy analysis identifying market-design features that balance market efficiency, firm fundraising, and retail investor welfare.

Long-Term Consequences and Investor Confidence

Gap: Limited research on how IPO losses and negative experiences affect retail investor long-term confidence and market participation.

If retail investors systematically lose money on early IPO trades, do they withdraw from equity markets, reduce savings, or become more risk-averse? How do IPO losses compare to losses from other retail trading activities (day trading, options trading)? How do these losses affect household wealth accumulation and retirement savings?

Research agenda: Longitudinal studies tracking retail investors over years following IPO participation, examining post-IPO market participation, subsequent investment behavior, and

long-term wealth consequences. Analysis of investor retention and learning: do retail investors who lose money on IPOs learn to avoid such trading, or do they persevere in the face of losses?

Policy and Practical Implications

The research evidence suggests several important implications for market design, regulation, and financial intermediation aimed at improving retail investor outcomes in IPO markets.

Enhanced Disclosure and Prospectus Design

Regulatory authorities should mandate prospectus formats specifically designed for retail investor comprehension. Evidence suggests that detailed disclosure increases retail participation (Cho et al., 2024), implying that more information is welfare-enhancing. However, information architecture matters: dense, technical prospectuses may not improve retail understanding despite increasing length. Simplified prospectuses highlighting fundamental risk metrics, using visual cues and plain-language explanations, and deemphasizing promotional tone could improve retail information processing.

Finfluencer Transparency and Incentive Disclosure

Regulatory authorities should require transparency of finfluencer financial interests in recommended IPOs. Disclosing whether a finfluencer has received compensation, holds position stakes, or benefits from IPO trading volume would help retail investors assess credibility and potential conflicts of interest.

Behavioral Warnings and Order-Execution Timing

Digital platforms could implement behavioral safeguards such as mandatory waiting periods before IPO trading, algorithmic warnings about listing-day momentum patterns, and explicit disclosure of historical median returns for retail IPO participants. While such measures might reduce retail trading volumes, they could improve retail outcomes by deterring participation in scenarios where retail systematic underperformance is most severe.

Financial Literacy and IPO-Specific Education

Regulators and investor protection organizations should develop IPO-specific financial literacy programs teaching retail investors about: allocation mechanisms, underpricing dynamics, listing-day volatility patterns, institutional participation signals, and long-term buy-and-hold strategies as alternatives to early liquidation. Such education could be

integrated into investor-education websites, digital platforms, and school curricula.

Market Design: Allocation Mechanisms and Transparency Timing

Policymakers should reconsider whether real-time subscription data disclosure genuinely improves market efficiency or primarily amplifies retail herding. Alternative designs—such as sequential pricing mechanisms, delayed subscription disclosure, or tiered allocation rules that protect retail investors from overallocation in oversubscribed IPOs—could be tested and evaluated based on retail-specific welfare metrics.

CONCLUSION

Retail investors constitute a substantial and growing participant segment in IPO markets, particularly in emerging economies where digital platforms have democratized access to investment opportunities. Yet retail investors remain systematically disadvantaged relative to institutional counterparts, suffering from fundamental knowledge gaps, vulnerability to sentiment and attention-based trading, limited access to high-quality advice, and cognitive and emotional processing asymmetries.

The evidence synthesized in this review demonstrates that retail investor participation in IPOs is driven substantially by sentiment, attention, social influence, and psychological factors rather than by fundamental analysis and rational valuation assessment. Retail investors rely on observable signals (institutional demand, finfluencer recommendations, media coverage, prospectus length) as proxies for quality, engage in herding behavior, and display excessive early-trade turnover and short holding periods that generate wealth losses.

While research on retail investor behavior in IPOs has advanced substantially, critical gaps remain. Future research should prioritize: (1) tracking long-term wealth consequences of retail IPO participation; (2) examining how digital platforms and algorithmic information delivery shape retail behavior; (3) testing behavioral interventions aimed at improving retail outcomes; (4) developing IPO-specific financial literacy programs; (5) analyzing retail-specific consequences of market design choices; and (6) examining heterogeneity among retail investors and identifying high-vulnerability segments.

Policymakers and market participants should recognize that improving retail investor outcomes in IPO markets requires attention not only to information transparency and disclosure, but also to behavioral mechanisms—sentiment, attention, herding, emotion—that

systematically shape retail trading decisions. Market design, regulatory frameworks, and financial intermediation should be calibrated to account for behavioral heterogeneity and to protect retail investors from their own systematic biases while enabling beneficial participation in primary capital markets.

The growing role of digital platforms, social media, and finfluencers in retail investment decision-making makes this research agenda urgent. As retail investor participation in IPOs grows and becomes increasingly mediated by algorithmic and social platforms, the need for evidence-based regulation and market design that improves rather than exploits retail behavior becomes more critical. This review identifies the knowledge gaps and research pathways necessary to address this imperative.

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