

## A Descriptive Study on Stock Holding Period of Retail Investors

Dr. Sumathi S<sup>1</sup> | Dr. Ramesha V<sup>2\*</sup>

<sup>1</sup>Associate Professor, Dept. of Commerce, Govt. First Grade College, KGF.

<sup>2</sup>Associate Professor & Co-ordinator, Dept. of PG Studies in Commerce, Govt. College for Women, Kolar.

\*Corresponding Author: mathrushree.ramesh@gmail.com

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### ABSTRACT

The financial education is the essential knowledge for Indians. Indians are good in the savings compared to Americans. But, in investments, Indians lack have lack of knowledge. The common point observed between Indians and Americans is the stock holding period which is decreasing since many decades say 1940 to 2020. In 1940 the average stock holding period was around seven years but over sixty years it has come down to six months eratically. It is not safe from the view point of retail investors. The present study is done based on secondary data from text books, journals and websites of SEBI, NSE, BSE and blue chip companies like Reliance, HDFC bank, Asian Paints, Wipro, TCS etc. The main findings includes Over the decades, it is observed from the research reports that the stock holding period is declining very fast-ly. It is not good from the view point of investors. They must hold the stock at least for a period of 10 years. Therefore, a better research must be done before investing in the stocks. Investors must stop investing by taking tips from neighbors and friends. They must get financial knowledge through seminars and conference sponsored by Securities Exchange Board of India, National Stock Depository Limited, National Stock Exchange, Bombay Stock Exchange etc. They must invest their valuable time on Enlightenment of Financial Knowledge rather than Entertainment reality shows like Bigboss, Sports, News and reels in Facebook, Watsapp, Instagram Etc. So, it can be concluded the investors must define their investments based on factors like period, purpose and their exit period. Investors must be educated through keeping syllabus on financial knowledge for non-commerce students, skill development courses must be run by the colleges and universities. In addition to this the individual effort of investors is the main factor which plays a significant role in grabbing the best long term investments in top ten NSE stocks.

**Keywords:** Long Term Investment, Mutual Funds, SIPs, Einstein, Power of Compounding.

### Introduction

Investment bankers says that the benefit is assured in long term investments say more than 10 years. Investors are investing in Bank Fixed Deposits, Post Office Recurring Deposits, Mutual Funds. Systematic Investment Plans, Etc. When investors are having aim of long term investment, they can give mandate of long period. It gives confidence to the investment banker to invest the investor's money in long term assets like shares, gold, real estate etc. This long term investment assures more returns like 12% to 18% p.a. The past research statistics are saying the holding period is decreasing over number of decades say 1940 to present year.

### Average Stock Holding Period in US

| Decade | Average Holding Period |
|--------|------------------------|
| 1940   | 7.1 Years              |
| 1950   | 4.2 Years              |

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|      |           |
|------|-----------|
| 1960 | 8.0 Years |
| 1970 | 5.3 Years |
| 1980 | 2.8 Years |
| 1990 | 2.2 Years |
| 2000 | 1.3 Years |
| 2010 | 1.1 Years |
| 2020 | 6 Months  |

The above table indicates that the patience of investors is coming down year by year. Before 1940, the US investors in an average, they were holding their investments like stocks for more than seven years. It is good from the view point of long term investments. But, in the year 1950, the holding period has come down to 4.2 years. This is indicating that, investors are not in position to hold for long period for getting high returns say more than 12% per annum. The holding period has come to 5.3 years in the decade of 1970s. in a special case, in the year 1960s, the holding period has increased to 8 years. It is an exception case where the holding period is increased. When, it is coming to 1980s, the holding period has further declined to 2.2 years, an extra-ordinary decline takes place. In the decade of 2010, again major decline takes place to 1.1 years. In 2020s, again a tremendous decline takes place to six months holding period. It is further found that, stocks are rotated by knowledgeable investors from one company to another. This is a better development. But, some investors, they lose the patience and close their investments within one year. So, they lose the benefit of long term investments – dividends and share price appreciation. The further benefits on long term investments are bonus shares and share splitting.

### **Investment Idea**

Better to fix the purpose of investment before starting investment and keep investment for longer than 10 years. Any ideas comes in between, further new investments can be done diverting old investments.

### **Investment Trends**

Retail investors show a trend toward longer-term, value-driven holding periods, with over 55% of equity assets held for more than 24 months. While short-term trading exists, many retail investors focus on long-term capital gains, often holding stocks for over two years, while IPO shares have no specific lock-in period for them.

### **Features of Retail Holding Periods**

- **Long-Term Preference:** Data shows a significant portion of retail assets (55% or more) is invested for over two years.
- **IPO Rules:** Retail investors have no mandatory lock-in period for IPO shares; they can sell immediately upon listing, or hold for long-term gains.
- **Tax Implications:** In many jurisdictions, holding stocks for less than 12 months is classified as short-term (often higher tax), while over 12 months is long-term.
- **Factors Affecting Decision:** Holding decisions are influenced by market conditions, with investors often waiting for 20%–25% gains before selling, or holding for longer-term value appreciation.

Holding for longer periods is typically considered beneficial for reducing transaction costs and capitalizing on market growth.

### **Average stock holding period in India in recent years**

It is observed that Indians are better than Americans in long term investments stock holding period. In recent years, American's average stock period is around 6 months, but Indians are holding for more than two years. Two factors are causing for this difference say the financial management and investment knowledge. Americans have more financial and investment knowledge rather than Indians. The other factor observed is Indians are more patient than Americans in stock holding period. One more research report says that Americans spend more money on present events, so, they discontinue the investments to enjoy present generation of life.

### **Key statistics regarding stock holding periods in India**

- **The Average Duration**

A decade ago Indians were holding the investment for more than 3 years. Now in 2020s, their patience has come down to 2 years in equity stocks such as investments in Reliance, Tata Consultancy Services, Wipro, Titan, Asian Paints, Sun Pharma, Devi's Laboratories etc.

- **Long Term Investments Vs Short Term Investments**

The average stock holding period must be at least 12 months to be eligible for long term investments in India for tax purposes. Long term capital gains are attracted to tax point of view since 2017<sup>th</sup> year in India.

- **Investor's Personal Behavior**

It is found that, in India only five percent of overall investors hold their stocks for a long period say more than ten years. Majority investors are discontinuing the investments, so, they lose the benefit of power of compounding. The great Scientist Einstein given a great quote which says that the eighth wonder in the world is power of compounding. So, Indians must adopt themselves to hold their stocks for more than 10 years.

- **Optimal Duration of Long Term Investments**

The financial and investment experts says that the stock holding period must be at least five years to seven years to enjoy the miracles of power of compounding as per great Scientist Einstein.

- **Considering Factors**

There are numerous factors influencing on stock holding period in India. Quoting some are lack of patience, urgent need of money for education, marriage, buying land, constructing residential homes for own dwelling purpose as well as rental purpose of long term rental incomes for life time. One more factor is trading behavior of Indians like intra-day, settling the investments within the span of one week to book profits after 20% to 30% gain.

### **Stock Holding Idea**

Although, the average period is two years, the holding quality stocks such blue chip companies like Reliance, HDFC bank, ICICI bank, Axis bank, SBI bank, Infosys, Tata Consultancy Services, Wipro, Larsen & Tubro, provide better returns over long term period say ten years.

### **Best time to sell stocks in India**

It depends on trading style

- For intraday, the first hour – 9.15 AM to 10.15 AM offers high volatility, whereas the final hour – 2.30 PM to 3.30 PM for making profits.
- For Long Term Investors, the best time to sell is when target prices are hit say more than 20% to 25%.
- Best day of the Week: The best day is said as Friday to avoid week end weak news of companies like profits are decreased, Chief Executive Officer and Managing Director has left the company on whom the company heavily depends or a case is filed against the company in the court for compensation.
- Fundamental Reasons to Sell: profit booking is the main reason if the profit is reached 20% to 25%, over-valuation of stock, if stock PE ratio is more than 20%.
- Fundamental Changes: The stock holding may be changed due to poor management, governance issues or high fluctuation in the prices.
- Rotation: High knowledgeable investors are always see the growth of the companies and growth of sectors like Information Technology, Banking and Finance, Construction, Fast Moving Consumer Goods Industry. So, as per the growth sector, they shift their investments periodically say quarterly, half yearly or yearly.

### **Investment Rationality**

- Avoid emotional selling – that is selling the quality stocks due to fear or greed.
- Set target price – the investor must set up target price while starting investment itself in the beginning of the investment journey. Stop Loss and Limit orders facilities can be availed by the investors.

- Define financial need – If there is a need like children education fees, purchasing land or construction of house, the stock holding period can be stopped.

## Findings and Suggestions

- Over the decades, it is observed from the research reports that the stock holding period is declining very fast-ly. It is not good from the view point of investors. They must hold the stock at least for a period of 10 years.
- Therefore, a better research must be done before investing in the stocks.
- Investors must stop investing by taking tips from neighbors and friends.
- They must get financial knowledge through seminars and conference sponsored by Securities Exchange Board of India, National Stock Depository Limited, National Stock Exchange, Bombay Stock Exchange etc.
- They must invest their valuable time on Enlightenment of Financial Knowledge rather than Entertainment reality shows like Bigboss, Sports, News and reals in Facebook, Watsapp, Instagram Etc.
- It is found from the above study that, Americans are better in financial inclusion. So, Indian government, SEBI and stock exchanges and Individuals must start learning stock investment activities.
- The best long term period is at least ten years to enjoy tax advantage and super normal returns say more than 15 percent p.a.
- The great Scientist Einstein's advice is the eighth wonder in the world is the power of compounding. So, investors must have patience to enjoy the long term benefits.
- Investors must be educated and not dependent on others for investment advices. They must know one of proverb which says that what we do – it is best, what others do – it is worst. So, we should not depend bank FDs, Mutual Funds, SIPs.
- We can directly invest in stocks of blue chip companies like MRF, Reliance, Asian paints, TCS, HDFC bank etc
- It saves yearly expense ratio of one percent payable to fund managers of mutual funds.
- There is post-poning attitude of investors. This has to be stopped immediately and it is advised to start learning and earning over long term.

## Conclusion

The investors must define their investments based on factors like period, purpose and their exit period. Investors must be educated through keeping syllabus on financial knowledge for non commerce students, skill development courses must be run by the colleges and universities. In addition to this the individual effort of investors is the main factor which plays a significant role in grabbing the best long term investments in top ten NSE stocks.

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