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Exploring the dynamics of penny stocks: A comprehensive analysis of knowledge and investor attitudes

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Abstract

Penny stocks have become popular among retail investors due to their low stock prices and high market instability in the Indian market. Investors wishing to speculate while hoping for capital growth along with those interested in economical stock acquisition select these risky stocks despite market trade restrictions. This research paper studies how investor's view penny stocks by analysing their behaviour. The research gathers data using primary sources together with secondary materials to determine demographic patterns alongside psychological elements which affect these investments. Market research reveals an increasing number of investors picking up penny stocks with a special focus on younger technology-oriented participants who make decisions based on insufficient facts and risky speculation. The final part proposes recommendations to strengthen investor instruction programs and improve market monitoring systems which will reduce potential risks while improving decision-making abilities in penny stock investments throughout Indian capital markets.

Keyword: Penny stocks, retail investors, investor behaviour, Indian stock market, speculative investment, investor awareness

1. Introduction

Stock trading advancements through digital technology combined with payment and settlement progress now attracts various retail investors to join stock market activity. Discount brokers along with modern technology systems and standard full-service brokers who reduced costs have jointly created conditions for retail investor growth. The increase in stock market participation extends far beyond urban locations since it spreads into rural areas too. The current investing pattern shows that investors focus on penny stocks through the information they receive from social media group recommendations. The confluence of digital advancements, the presence of both discount and full-service brokers, and the influence of social media on investment decisions, particularly in the realm of penny stocks, forms a complex landscape. Penny stocks stand apart from other stock market assets through their elevated beta and poor performance record and small market valuation and high volatility and sizeable book-to-market ratio and high returns and low liquidity. Penny stocks attract investment from retail investors because they want to obtain impressive returns fast enough to optimize their portfolio performance. The attractive quality of penny stocks emerges from their anticipated enormous profit generation potential alongside their swift returns. The combination of low liquidity and historical unfledged performance challenges does not deter retail investors from investing in penny stocks because these securities present a chance for substantial returns. Penny stocks possess characteristics including high return, high beta, small company size, high book-to-market ratio along with high volatility and a track record of inadequate performance. The purchasing and selling activity of these stocks happens very slowly. People who classify themselves as retail investors will invest in penny stocks to build their portfolios but their goal remains to achieve maximum profit within a brief period.

2. Materials and Methods

2.1 Scope of the Study

The study examines all features of retail investors' approaches to understanding penny stocks in the financial market through complex research methods. The research focuses on gaining fundamental knowledge about how retail investors make behavioural choices while building motives and taking choices in penny stock investment domains.

2.2 The significance of the study

This paper conducts a detailed investigation into retail investors' opinions about penny stocks which provides useful information about a crucial segment of financial markets that shapes the experiences of investors and the financial system's stability. The research findings create opportunities for practical improvements in investor education along with market stability mechanisms and strategy development that support retail investor perspectives and preferences. Penny stock investment remains risk-averse for most investors who face challenges because of high-risk exposure in this share type. A research effort was initiated to examine the stock market investors regarding their views about penny stock investments. The research investigates stock market investors' attitudes towards penny stocks together with their decision-making factors during penny stock investments.

2.3 Statement of the Problem

Penny stocks function as affordable stock shares which frequently align with small businesses and deliver potential high risk together with high reward potential. Although some retail investors utilize online trading and social media to buy penny stocks their behaviours toward these assets remain poorly documented. Retail investors who access both financial information online and discounted broker services have started investing in specific penny stock assets. Scientific investigations about penny stocks mostly concentrate on risk assessment and return on investment calculations yet analyses of retail investors' perceptions about these stocks remain rare. The researcher conducts this study to determine retail investors' attitude toward penny stock investments.

2.4 Research Objectives

1. To Measure the level of knowledge of the characteristics of penny stocks.
2. To study the attitude of retail investors to include penny stocks in their portfolio.

2.5 Research Hypothesis

There is no significant difference in the factors considered by retail investors on the basis of occupation.

2.6 Research Methodology: This study employs both primary and secondary data sources. Designed questionnaires combined with direct contact allowed researchers to gather data from retail stock market investors. The research utilized secondary data collected from academic books and journals as well as official websites.

2.7 Sample Design

Judgmental sampling was applied to select the study

participants while paying attention to their job roles and academic qualifications. Research data about investors' attraction to penny stocks came from 100 respondents focusing on their opinions. The chosen participants resided in Kerala state. The researchers utilized non-probability sampling to obtain data from available subjects who have experience in penny stocks.

2.8 Tools for Data Collection

A formal standardized questionnaire was used to gather information from retail investors across Kerala about their intentions to include penny stock futures and their potential opinions regarding penny stocks. An online google form was designed and distributed to the target investors to secure the necessary study data.

2.9 Tools for analysis

The researcher used mathematical along with statistical tools like percentages as well as graphs and charts to analyse the gathered data. The chi-square test served as the evaluation method for this research.

2.10 Research Approach

The research design adopted for this investigation is descriptive. The study method applies systematic protocols for detailing characteristics and investment actions of retail investors who participate in penny stock markets. The research design provides an effective means to show genuine interactions between Indian stock market investors and penny stocks. This research method allows researchers to discover patterns together with associations between investment variables including age, investment awareness and risk tolerance. Research designed for description gives comprehensive factual findings about investor attitudes that functions as research groundwork for additional studies and policy work.

3. Review of Literature

Penny stocks possess higher liquidity expenses when compared with stocks of higher price tags. The buying of small or value penny stocks combined with short selling large or growth penny stocks produces significant abnormal profits throughout short-term and prolonged periods after considering all risk variables. Liu, Q., Rhee, S., & Zhang, L. (2011)^[2].

The researcher in this study investigated how social media affects penny stock financial outcomes according to Lo, K. K., & Chau, M. (2019)^[3]. The future rates of penny stock performance depend directly on the positive and negative social media feedback received. Information diffusion occurs at a high level when dealing with penny stocks. Plenty of investors monitor social media because traditional information concerning penny stocks lacks essential details so they depend on this platform for investment-related details.

The research by Gaggar K. (2017)^[4] analysed Indian stock market prices focusing especially on low priced stocks. Indian penny stocks have three distinctive characteristics including better profit outcomes while simultaneously exhibiting minimal market share and trading activity together with poor organizational management. Turnover in shares remains prominent within the Indian stock market

despite penny stocks holding only a very small market capitalization share.

One special category of penny stocks was studied by Konku, D., Bhargava, V., & Malhotra, D. K. (2012) ^[5] regarding their performance in both short-term and long-term periods. Penny stocks deliver initial high returns between 18% and 20% during their first year before experiencing a severe drop in returns after the initial 13 months. The research concludes that an investor earns maximum returns by holding penny stocks during an optimal 11-month period.

Pieroni, E. (2017) ^[6] examines penny stocks since they have remained a segment that most investors including institutions and individuals view with fear despite their

limited market interest. The objective of this research aims to create new academic content surrounding this subject domain by developing statistical trading techniques for operators in the day-trading market.

Liu Q., Rhee S. G., & Zhang L. (2011) ^[2] pursued research about penny stocks' characteristics together with pricing dynamics. Research findings demonstrated that penny stock liquidity costs far surpass the rates for high-priced stocks. Investors earn substantial abnormal gains from both penny stocks purchases in small amounts and short sales of large-growth penny shares despite adjusting for all potential risks.

4. Results and Discussion
4.1 Demographic Profile of Respondents

Table 1: Demographic Profile

Demographic Variables	Category	Number	Percentage
Gender	Male	68	68.00
	Female	32	32.00
	Total	100	100.00
Age	Below 30	55	55.00
	30-40	11	11.00
	40-50	21	21.00
	50-60	12	12.00
	Above 60	1	1.000
	Total	100	100.0
Educational Status	Plus Two	14	14.00
	UG	24	24.00
	PG	56	56.00
	Professional Degree	6	6.00
	Total	100	100.00
Employment	Government Job	58	58.00
	Private Job	16	16.00
	Business	12	12.00
	Others	14	14.00
	Total	100	100.00
Monthly Income	Below 50,000	4	4.00
	50000-100000	58	58.00
	100000-200000	24	24.00
	Above 200000	14	14.00
	Total	100	100.00
Years of Experience in Stock Trading	Below one year	10	10.00
	1-5 Years	50	50.00
	6-10 Years	34	34.00
	11-15Years	6	6.00
	Total	100	100.00

Source: Primary Data

Table 7: Percentage of Investment in Penny Stock

Percentage of Investment	Frequency	Percent
Less than 10	22	22.00
10-20	54	54.00
20-30	6	6.00
30-40	12	12.00
40-50	6	6.00
Total	100	100.00

Source: Primary Data

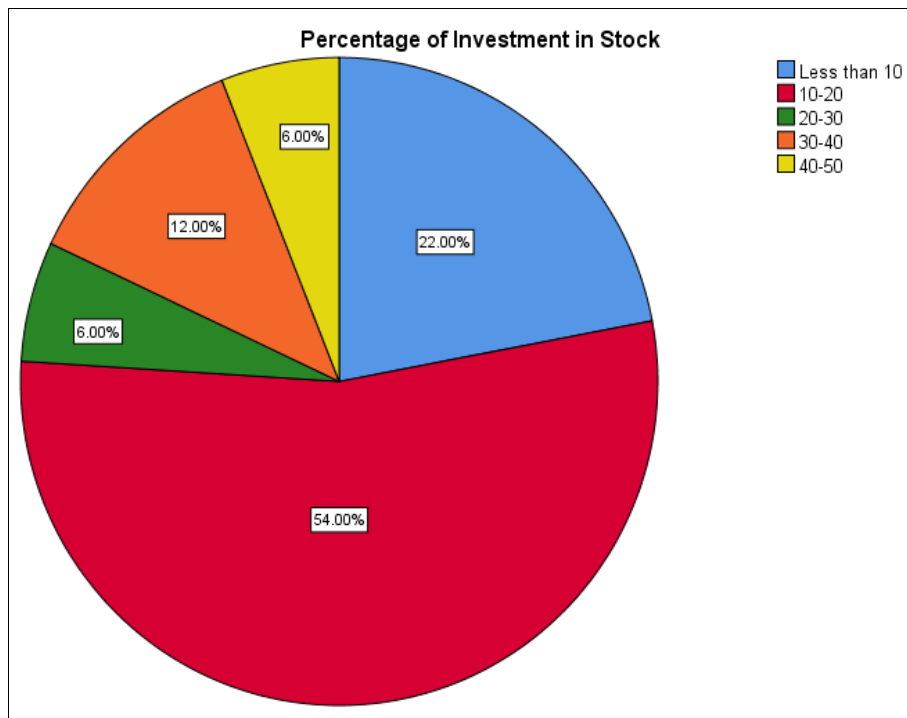


Fig 1: Percentage of Investment in Stock

The surveyed participants display varying investment behaviour towards risky stocks. Investors tend to choose

penny stocks as their preferred investment option even though these stocks carry substantial risk.

Table 3: Factors Influencing the Penny Stock Selection

Factors	Frequency	Percentage
Market Trends	76	76.00
Company Fundamentals	2	2.00
Recommendations from Financial Experts	16	16.00
Influence of friends	4	4.00
Others	2	2.00
Total	100	100.00

Source: Primary Data

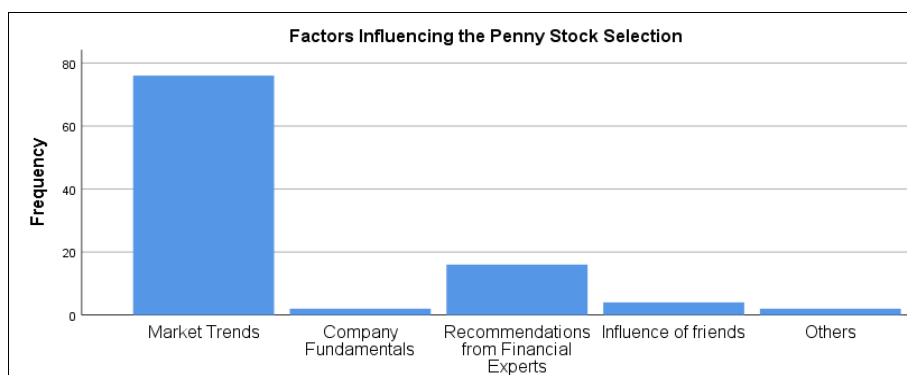


Fig 2: Factors Influencing the Penny Stock Selection

Market trends stand out as the primary factor compelling penny stock investors because a considerable 76% group of respondents utilise this element in their selection process. A small percentage of 2% makes investment decisions based on company fundamentals. The influence of professional financial expert recommendations reaches 16% of respondents who select penny stocks according to expert

advice. Social influence plays only a minor role in investor decision-making since friends have a direct impact on only 4% of respondents. According to the collected data most investors who buy penny stocks mainly determine their investments through market patterns rather than using analytical tools or expert recommendations.

Table 4: Source of Information about Penny Stocks

Sources of Information	Frequency	Percent
Websites	38	38.00
Social media groups	44	44.00
Financial advisors	16	16.00
Friends and relatives	2	2.00
Total	100	100.00

Source: Primary Data

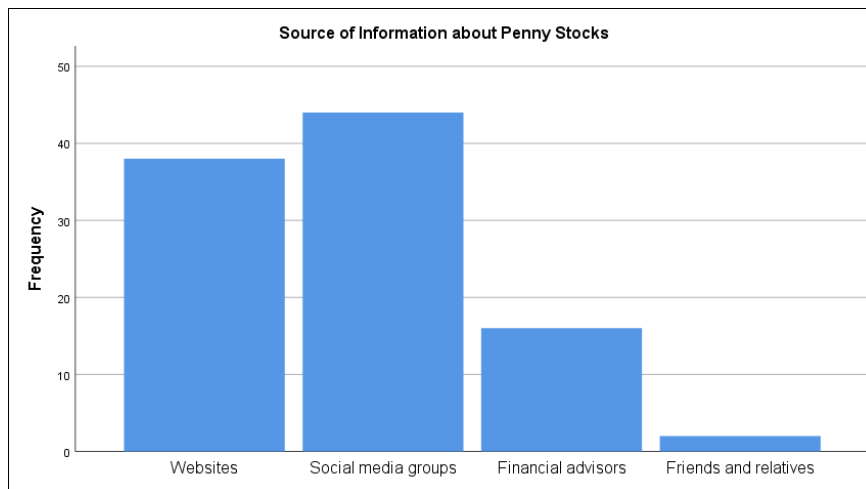


Fig 3: Source of Information about Penny Stocks

Online platforms are the primary source of information about penny stocks as indicated by 44% of the surveyed respondents who demonstrate an increasingly digital approach to investment decision-making. Social media enables 38% of penny stock investors to obtain information about potential opportunities because peer-based and trending content power the investment discussion. Numerous investors favour information that is easily obtainable through dynamic updates. Investors primarily utilize digital resources which represent 82% of their information sources according to the gathered data. The

information trend shows that modern electronic channels are replacing traditional approaches for penny stock analysis.

Table 5: Interest in Educational Resources about Penny Stocks

Interest in Educational Resources	Frequency	Percentage
Slightly interested	34	34.00
Interested	32	32.00
Highly Interested	34	34.00
Total	100	100.00

Source: Primary Data

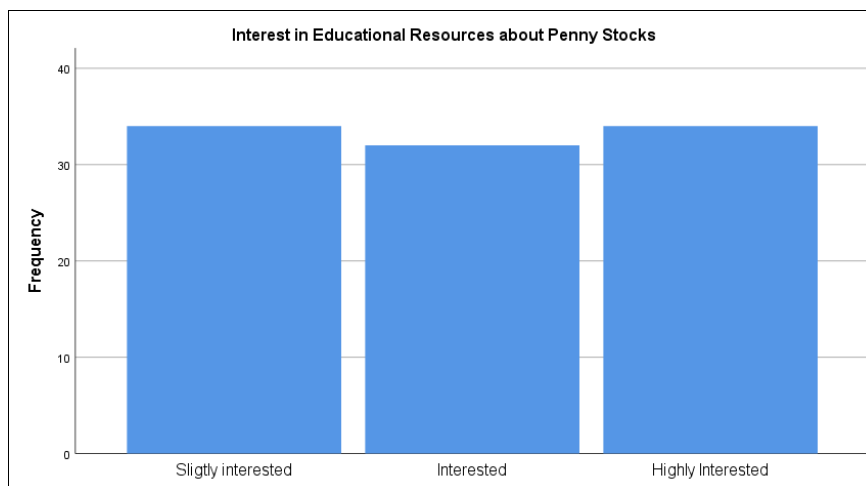


Fig 4: Interest in Educational Resources about Penny Stocks

The survey results regarding the interest of investors towards penny stock reveal equal interest levels across the research participants. Thirty-four percent of survey participants show strong enthusiasm to learn additional information about penny stocks which signifies a convincing student base for this particular financial field. A

considerable 34% of respondents show mild interest suggesting their potential willingness to learn about penny stocks with informative resources that are easy to access. The survey results reveal that 32% of participants fall into the category of showing intermediate interest in educational resources pertaining to penny stocks.

Table 6: Correlation Relating to Factors Influencing Penny Stock Selection

Factors	Correlation	Low Share Price	Stocks of New Companies	Low Market Capitalisation	Lower Liquidity	Smaller Companies and Startups	High Profit Potential	High Market Manipulation
Low Share Price	Pearson Correlation	1	.316**	.322**	.165	.235*	.122	.532**
	Sig. (2-tailed)		.001	.001	.101	.019	.228	.000
	N	100	100	100	100	100	100	100
Stocks of New Companies	Pearson Correlation	.316**	1	.596**	.285**	.474**	.275**	.298**
	Sig. (2-tailed)	.001		.000	.004	.000	.006	.003
	N	100	100	100	100	100	100	100
Low Market Capitalisation	Pearson Correlation	.322**	.596**	1	.644**	.523**	.316**	.315**
	Sig. (2-tailed)	.001	.000		.000	.000	.001	.001
	N	100	100	100	100	100	100	100
Lower Liquidity	Pearson Correlation	.165	.285**	.644**	1	.419**	.285**	.600**
	Sig. (2-tailed)	.101	.004	.000		.000	.004	.000
	N	100	100	100	100	100	100	100
Smaller Companies and Startups	Pearson Correlation	.235*	.474**	.523**	.419**	1	.413**	.312**
	Sig. (2-tailed)	.019	.000	.000	.000		.000	.002
	N	100	100	100	100	100	100	100
High Profit Potential	Pearson Correlation	.122	.275**	.316**	.285**	.413**	1	.578**
	Sig. (2-tailed)	.228	.006	.001	.004	.000		.000
	N	100	100	100	100	100	100	100
High Market Manipulation	Pearson Correlation	.532**	.298**	.315**	.600**	.312**	.578**	1
	Sig. (2-tailed)	.000	.003	.001	.000	.002	.000	
	N	100	100	100	100	100	100	100

Source: Primary Data

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

The analysis reveals a moderate positive relationship between Low Share Price and High Market Manipulation which yields a statistically significant result ($r = 0.532, p < 0.01$). This indicates investors view stocks with low prices as more susceptible to manipulation. High liquidity rates occur when investors choose stocks from new businesses because new companies have low market capitalization ($r = 0.596, p < 0.01$) and present a small-scale operation ($r = 0.474, p < 0.01$). Lower market capitalisation of stocks shows a substantial positive link to weaker liquidity levels ($r = 0.644, p < 0.01$) which suggests stocks with reduced market value usually encounter liquidity challenges. The relationship between High Market Manipulation and High Profit Potential stands at $r = 0.578$ with $p < 0.01$ which indicates investors see lucrative business prospects as more vulnerable to unethical handling. Market manipulators perceive stocks with low levels of liquidity as particularly vulnerable to manipulation abuses ($r = 0.600, p < 0.01$). Investors perceive profitable growth potential in smaller companies and startups since they demonstrate a positive association ($r = 0.413$) at $p < 0.01$ level. A weak yet statistically significant relationship exists between investments in companies with lower share prices and small businesses ($r = 0.235, p < 0.05$) which confirms penny

stocks usually belong to small firms. Investors consider stocks with lower market capitalization as offering high profit potential based on a correlation of 0.316 ($p < 0.01$). The data shows that stocks of new companies exhibit a strong positive relationship with market manipulation activities ($r = 0.298, p < 0.01$) potentially due to regulatory or authenticity issues present in these companies.

Table 7: Measures of Characteristics of Penny Stocks

Characteristics	N	Minimum	Maximum	Mean	Std. Deviation
Low Share Price	100	1.00	3.00	1.5800	.69892
Low Market Capitalisation	100	1.00	4.00	1.6400	.84710
Stocks of New Companies	100	1.00	4.00	2.4800	1.10536
Lower Liquidity	100	1.00	4.00	1.9000	.85870
Smaller Companies and Startups	100	1.00	4.00	2.0200	.79111
High Profit Potential	100	1.00	4.00	2.3000	.78496
Valid N (listwise)	100				

Source: Primary Data

The responses of 100 participants who rated various characteristics of penny stocks on a Likert scale.

Characteristic	Mean Score	Interpretation
Low Share Price	1.58	Respondents strongly agree that penny stocks are associated with low share prices.
Low Market Capitalisation	1.64	There is strong agreement that penny stocks typically have low market capitalisation.
Stocks of New Companies	2.48	Responses are more neutral to moderately agreeing, suggesting mixed opinions on whether penny stocks belong to new companies.
Lower Liquidity	1.90	Respondents generally agree that penny stocks have lower liquidity.
Smaller Companies and Startups	2.02	Moderate agreement that penny stocks are associated with smaller firms and startups.
High Profit Potential	2.30	Respondents somewhat agree that penny stocks have high profit potential, indicating some belief in their speculative nature.

Source: Primary Data

Standard Deviations range from ~0.7 to ~1.1, indicating some variability in responses-especially for "Stocks of New Companies" and "High Profit Potential". Lowest Mean is for *Low Share Price* (1.58), suggesting it is the most agreed-upon characteristic. Highest Mean is for *Stocks of New Companies* (2.48), implying more diverse opinions on this

point. Respondents largely agree that penny stocks are characterized by low prices, low market cap, and low liquidity. There's moderate agreement regarding their association with new or small companies, and a mixed but leaning positive view on their profit potential.

Table 8: Test Statistics

	Low Share Price	Low Market Capitalisation	Stocks of New Companies	Lower Liquidity	Smaller Companies and Startups	High Profit Potential
Chi-Square	26.480 ^a	31.040 ^a	35.040 ^b	51.360 ^b	57.760 ^b	52.000 ^b
df	2	2	3	3	3	3
Asymp. Sig.	.000	.000	.000	.000	.000	.000

Source: Primary Data

The Chi-Square value of 26.480 ($p = .000$) indicates a statistically significant deviation from expected frequencies. A higher-than-expected number of investors strongly agree that penny stocks are characterized by low prices, confirming it as a dominant perception among respondents. The test result ($\chi^2 = 31.040, p = .000$) shows a significant perception that penny stocks belong to companies with low market capitalisation, with a strong majority agreeing or strongly agreeing, and only a few disagreeing, which strengthens this stereotype. A Chi-Square of 35.040 ($p = .000$) suggests that investors significantly associate penny stocks with new or emerging companies. The large number of agreements (particularly moderate agreement) reflects the common perception that penny stocks are often from startups or newly listed firms. The result ($\chi^2 = 51.360, p = .000$) signifies a strong investor agreement that penny stocks generally suffer from lower liquidity, affecting trading ease. A noticeable concentration in the "agree" category supports this perception. The high Chi-Square value ($\chi^2 = 57.760, p = .000$) confirms a statistically significant perception that penny stocks are tied to smaller or startup companies. The high number of agreements demonstrates strong alignment with this characteristic. With a Chi-Square value of 52.000 ($p = .000$), the data shows a statistically significant tendency among investors to associate penny stocks with high profit potential. All the variables tested showed statistically significant Chi-Square values ($p < .001$), confirming that investor perceptions of penny stocks-such as low share price, low market capitalisation, new or small companies, lower liquidity, and high profit potential-significantly differ from what would be expected by chance. This affirms the existence of clear and consistent investor beliefs about the nature of penny stocks.

5. Findings

The majority of respondents base their penny stock choices on market patterns instead of using fundamental analysis or expert consultation. The data shows male traders who have between one year to ten years of trading experience rely on following market trends in a manner that demonstrates speculative behaviour. Users of websites and social media platforms comprise the majority group of individuals who seek information about penny stocks. Digital decision systems have become prominent while turning away from conventional media platforms to receive real-time information from peers which drives investment behaviour. Market manipulation risks and low liquidity remain

acknowledged by investors but many people perceive penny stocks as promising opportunities for high profits. Small investors do not base their penny stock investment decisions on fundamentals but prefer other factors. The data indicates financial evaluation plays a minor role in penny stock investment decisions as investors predominantly make decisions based on impulses or following trends.

6. Conclusion

Retail investors increase their focus on penny stocks because of their high yield and low investment requirements. The troubling aspect revealed by this study shows retail investors taking risky speculations because they lack proper financial education and limited understanding about the market. Investors who are young and tech-oriented show strong interest in penny stocks because they prefer using social media peer reviews over seeking professional financial guidance. Penny stocks have high volatility and low market liquidity that produces large risks for retail investors because they typically underestimate these hazards. A structured education system for retail investors needs immediate implementation because it will teach risk evaluation techniques and responsible financial investment practices. Industrial regulation should be strengthened simultaneously with better transparency in penny stock transactions to protect investors from market risks. The research findings require officials from financial education along with brokers and regulators to team up for safeguarding investor protection. A better educated and more cautious retail investor base will create sustainable capital market practices for India while participating in its financial markets in a healthy manner.

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