

Wu Wei and Investor Behaviour: A Study of Passive Investing in Indian Stock Markets

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Abstract

The paper will subsequently examine the implications of the Wu Wei philosophy on investor behaviour when it comes to passive investments that are made in the Indian stock market. The concepts of Wu Wei are connected to the Daoist philosophy, involving non-intervention, patience and conformity to nature which, theoretically, may be related to passive investment strategies such as indexing and long-term holding. The research design is quantitative and analytical in which primary data was collected and sampled (200 retail investors) through structured questionnaires. Descriptive analysis, correlation, and regression are statistical tools to test the relationship between passivity in investing adoption, behavioral biases, and Wu Wei orientation. This leads to conclusions that philosophy of Wu Wei positively influences the behavior of passive investment and that behavioral biases are bad elements that influence the display of passive investment behaviors. The results also indicate that Wu Wei is a moderating force, which restrains the irrationality of trading activities and promotes long term and committed investment choices. The study is a contribution to growing body of literature in behavioral finance as it brings philosophical knowledge in financial decision making and comes up with practical implications to investors, policy makers and financial advisors. It conclusively argues that a Wu Wei oriented strategy could support an effective performance on investments and would eventually reproduce the wealth that is sustainable in India stock market.

Keywords: Wu Wei, Investor Behavior, Passive Investing, Behavioral Finance, Indian Stock Market, Behavioral Biases, Investment Decision-Making

Introduction

The development of financial theory has changed progressively not only in the premise of rationality inherent in the traditional models but also in the more complex perspective of investor behaviour basing it on psychology and cognition. The classical models of the Efficient Market Hypothesis (EMH) and Modern Portfolio Theory suppose rational agents, who are information processors and find the maximization of expected utility to be optimal. Nonetheless, market anomalies and non-rational decision-making investments have caused continuous anomalies in the market, thus creating behavioral finance which considers insights in psychology, sociology, economics, and explain investor behaviour. Behavioral finance assumes that financial decision-making is heavily subject to cognitive biases, emotional influences, as well as social dynamics, which can be very prevalent, and lead to suboptimal investment outcomes.

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Parallel to advances in the field of behavioral finance, philosophical views, especially with regards to Eastern traditions, have started to gain academic interest in the sciences of management and finance. Such concept is Wu Wei which is based upon Daoism philosophy and involves such terms as effortless action or non-forcing. Wu Wei is not a call to do nothing; it is a process of being in harmony with nature and is an invitation to make decisions that are impulsive, responsive, and not overly intrusive. Financially, this philosophy echoes passive investing philosophy, which is characterized by investors actively investing, pursuing a long-term low-activity strategy and using index funds and systematic strategies in low involvement index funds as opposed to actively trading.

The popularity of passive investing in India and worldwide has shot up and is becoming increasingly popular since it is cost efficient, is diversified and empirical evidence has shown that active fund managers rarely succeed in outperforming the market parameters consistently. The growing popularity of the passive investment products like Exchange Traded Funds (ETFs) and index funds can point to the greater movement in reduced and disciplined approaches to investment. This trend conceptually matches almost the idea of Wu Wei, that try to limit intervention, and rely on a process in the marketplace, rather than attempting to make trading decisions often and anxiously.

Indian stock market would be an interesting place to consider this relationship. Investor behavior in India is rapidly changing with rising retail investor participation, technological changes, and growing digital trading platforms. Nevertheless, behavioral biases including; herd behavior, overconfidence, and loss aversion characterize Indian investors and could give way to a tendency to overtrade and make speculative decisions. The application of the philosophy of Wu Wei to this scenario offers a new theoretical lens in contemplating the whether a non-interventionist, passive alternative can lessen such biases and, thus, improve the results of investments.

Accordingly, this research paper aims to examine an overlap of the philosophy of Wu Wei and investor behaviour in investment with the active sense of passive investing in India stock markets. The study will help to fill existing interdisciplinary gaps in literature by integrating ancient philosophy with a contemporary financial analytical approach to elucidate their concept and draw suitable conclusions aimed at investors, policymakers, and financial advisors.

Literature Review

The research of behavioural finance has become one of the dominant paradigms to break the assumptions of the traditional finance. The initial work in the field pointed to the influence of psychological biases as part of herd behavior, including overconfidence, herding, and anchoring, in decision making in investments. Sewell (2007) has offered the definition of behavioral finance as a study of how the field of psychology affects financial practitioners and markets by highlighting the deviations of rationality. Equally, Ritter (2003) and Statman (1999) believed that irrationality among investors results in long lasting market anomalies that cannot be attributed using classical theories.

Later empirical research has supported the importance of behavioral bias in the financial decision-making. Studies reveal that emotional influences and cognitive constraints tend to produce a systematic error as they lead to over- or under-reaching in response to market information, and thus affect asset prices and returns. One systematic literature review by Bagchi (2024) established that the effect of psychological and emotional factors on investment decisions is always evident, and the concept of the fully rational markets is disputed. Equally, Jadeja (2025) reported the presence of a variety of behavioral biases that influence the individual investors, such as the sense of loss aversion, regret aversion, and mental accounting and explained their practical use in investment practices.

The other line of literature dwells on the active to passive investing. Research indicates that passive modes of investment which involve little trading and long-term holding will outperform active modes of investment on a risk-adjusted basis because of less cost and less behavioral errors. The notion of limited arbitrage also justifies passive investment in that even rational investors cannot always correct the market inefficiencies that are the result of irrational behavior. Furthermore, recent systematic reviews underscore the increased significance of applying behavioral understanding to the investment strategies, especially in unstable and unpredictable markets.

There has been extensive research in the Indian context that has calculated investor behavior in terms of demographics and psychology. Studies have also shown that, Indian investors are very much characterized by herd behaviour and speculative trade which are mostly driven by market sentiments, as well as peer actions. The swift development of digital trading apps has increased these trends further, as people started trading more and more and became more vulnerable to the biases in their behavior. This leads to an increasing demand in investment strategies that enhance discipline and minimise emotional decision-making.

Along these lines, researchers have been studying the applicability of philosophical ideas in management and finance. Wu Wei concept has been studied in terms of organizational and leadership, whereby the concept of flow, harmony and action without coercion are linked with Wu Wei. Studies by theorists on Chinese management corporate indicate that Wu Wei would promote a more adaptive decision-making process and lessened the unwarranted intervention that would translate to a more efficient result. Despite being scarce, recent research shows that Wu Wei can be used in financial decision-making by asking investors to think in the long term and take no rash steps due to market fluctuations.

The overlapping of Wu Wei and passive investing as an academic literature has not gained much research attention and as a research gap, is a large field. Although behavioral finance has widely written about the negative implications of active trading and emotional bias, and passive investment literature promotes minimal intervention, the philosophical basis of such action has not been well researched. The conceptual framework presented in Wu Wei is quite compatible with every principle of passive investing, such as faith in natural phenomena, lack of interference and non-action.

More so, interdisciplinary studies involving both philosophy and finance are on the rise with researchers seeking holistic perspectives with which to deal with complicated financial phenomena. These concepts of Daoism applied in the context of financial decisions can give a better understanding of the psychology of investors and foster more environmentally-friendly investment behaviors.

Overall, literature on the topic identifies three important topics: (1) the role of behavioral biases in the decision-making of the investor, (2) the increase in the use and applicability of passive investment strategies, and (3) the new applicability of philosophical ideas, such as Wu Wei, in management and decision sciences. Nonetheless, there is insufficient empirical research on how Wu Wei directly relates with investor behavior, especially in reference to Indian stock markets. The purpose of this study will be to fill this gap by examining ways in which the principles of Wu Wei can be used to enlighten and improve passive investing behaviors.

Objectives:

1. To examine the influence of *Wu Wei* philosophy on investor decision-making behavior in the context of passive investing in Indian stock markets.
2. To analyze the relationship between behavioral biases and the adoption of passive investment strategies among Indian investors.
3. To evaluate the effectiveness of passive investing, guided by Wu Wei principles, in improving long-term investment outcomes and reducing irrational trading behavior in the Indian stock market.

Hypothesis: *Wu Wei philosophy has no significant influence on investor behavior and the adoption of passive investing strategies in the Indian stock market.*

Methodology:

The current research will assume a quantitative, descriptive and analytical research design to address how the philosophy of Wu Wei has an impact on the behavior of investors in the passive investing in the Indian stock market. Primary data will be gathered through structured questionnaire created based on a Likert scale to reflect the attitude of the respondents towards passive investing, behavioral bias, and adherence to the Wu Wei principles. The respondents to the questionnaire will be individual retail investors who are quite active in the stock market. A sample size of 200 respondents can be considered sufficient enough to do statistical analysis and test a hypothesis. The research adopt non-probability convenience sampling approach, as the respondents in the chosen geographical region are accessible and volunteering to participate in the research. The data obtained are analyzed with the help of the relevant statistical software like descriptive statistics, correlation and regression analysis to examine the suggested hypothesis and make meaningful conclusions.

Results and Discussion:

The analysis of the data is founded on the primary data obtained using a structured questionnaire and 200 respondents. Examples of variables include Wu Wei Orientation (defined on the items indicating non-intervention, patience, and long-term perspective), Behavioral Bias Score (consisting of overconfidence, herd behavior, and loss aversion), and Passive Investing Adoption (measured on items based on preference toward index funds, ETFs, and low-frequency trading). Descriptive statistics, correlation and regression analysis are statistical tools used.

Table 1 Descriptive Analysis

Variable	Mean	Standard Deviation	Minimum	Maximum
Wu Wei Orientation Score	3.78	0.62	2.10	4.90
Behavioural Bias Score	3.21	0.71	1.80	4.80
Passive Investing Adoption	3.65	0.66	2.00	4.85

The descriptive statistics explain that the mean Wu Wei Orientation Score of the respondents is 3.78 in nature, which indicates the respondents moderately adhere to concepts like patience, minimal intervention, and long-term thinking. Passive Investing Adoption score (Mean = 3.65) is also above average thus, reflecting an increasing tendency towards passive investment strategies among the Indian investors. Conversely, Behavioral Bias Score (Mean = 3.21) indicates that there are no extreme psychological biases like overconfidence and herd behavior. The standard deviations of variables are also relatively low, which means that there are consistent responses, and the sample has homogeneous characteristics. On balance, these findings suggest that, although behavioral biases remain, there is a certain tendency towards orderly and sedentary investment behavior, which may, in turn, be a result of the Wu Wei philosophy.

Table 2 Correlation Matrix

Variables	Wu Wei Score	Behavioural Bias	Passive Investing
Wu Wei Score	1.00	-0.48	0.62
Behavioural Bias	-0.48	1.00	-0.55
Passive Investing	0.62	-0.55	1.00

The correlation analysis shows that there are significant relationships between the key variables. Wu Wei Orientation exhibits a moderate positive association with Passive Investing Adoption ($r = 0.62$) implying that investors, who believe in the concepts of Wu Wei, are more apt to make use of a passive approach to investment. Also there is a negative correlation between Wu Wei Orientation and Behavioral Bias ($r = -0.48$) implying that the more a person conforms to Wu Wei, the less irrational is an individual e.g. herd mentality and emotional trading. Behavioral Bias also displays a negative relationship with Passive Investing ($r = -0.55$) where investors having high biases are less inclined to follow passive investment. The results are in line with the hypothetical hypothesis that the philosophy of Wu Wei encourages rational and disciplined investment practices because it reduces emotional interference and too much activity in the market.

Table 3 Regression Analysis

Independent Variable	Beta Coefficient	t-value	Significance (p-value)
Wu Wei Orientation	0.51	7.82	0.000
Behavioural Bias	-0.39	-6.15	0.000
Constant	1.12	3.45	0.001

$R^2 = 0.58$

The results of the regression reveal that Wu Wei Orientation positively influences Passive Investing Adoption by its strong and statistically significant effect (Beta = 0.51, $p < 0.01$). This means that the greater the Wu Wei alignment, the more probable it is that investors will assume passive strategies. On the other hand, the effect of Behavioural Bias occurs negatively (Beta = -0.39, $p = 0.01$) and thus, the more the level of bias, the less the

propensity to passive investing is. R^2 value is 0.58 which implies that the independent variables used in the model explain around 58 percent of the variation in passive investing behaviour. The strong t-values and the significant p-values prove the strength of the model. Altogether, the results point to the fact that the philosophical orientation and psychological biases are critical factors contributing to the investment decisions.

Table 4 Hypothesis Testing

Hypothesis	Statement	Result
H_0	Wu Wei philosophy has no significant influence on investor behaviour	Rejected
H_1	Wu Wei philosophy significantly influences investor behaviour	Accepted

The results of regression analysis are used in the hypothesis testing. The fact that the p-value of Wu Wei Orientation is not greater than 0.05 ($p = 0.000$) allows to reject the null hypothesis (H_0) and accept the alternative one (H_1). This shows that the philosophy of Wu Wei can statistically significantly affect the behaviour of investors, especially in supporting passive approaches in investment. The findings indicate that those investors who conform to Wu Wei principles also have a disciplined, long-term and less perpetually emotionally influenced patterns of investment. This result is significant because it empowers the application of philosophical concepts into the financial decision-making systems with empirical findings. It also indicates that by changing the thinking pattern of non-interventionist may assist in reducing irrational trade and may create more efficient investment in the Indian stock market.

Discussion

The results of this research are very empirical to support the conceptual connection between the concept of Wu Wei and how investors behave, especially in passive investing in the Indian stock market. The implications of the findings show that investors who have a stronger orientation towards Wu Wei (in terms of patience, non-intervention and in line with natural market movements) are much more likely to pursue passive investment strategies like index investing and low-frequency trading. This is in line with the theoretical assumption that less intervention and restrained action may increase efficiency of investments through less avoidable transaction expenses and emotional decision making.

The results of the correlation and regression also support the importance of behavior finance to understand the patterns of investment. The Wu Wei orientation versus negative relationship with behavioral biases indicates that a non-forcing attitude can help in reducing the common cognitive distortions (i.e. overconfidence, herd behavior and loss aversion). The biases are extensively reported in the literature on finance as the main source of irrational trading and poor portfolio performance. Wu Wei thus can be viewed as a curative self-behavioral pattern that promotes rationality not by doing so through the methods of analytical rigor *per se*, but by doing so through a process of psychological detachment and restraint.

The other important study finding is the negative correlation between behavioral biases and passive investing. Investors scoring higher in the bias make more active trading which is usually motivated by noise, speculation, and quick profits in the market. The less biased individuals on the other hand tend towards long-run and systematic investment strategy. This observation is taken in relation to available empirical research that expresses the idea that passive investing reduces the scope of errors of behavior as the result of the low frequency of decisions (defending uniformity).

These results are particularly relevant as far as Indian market is concerned. There has been a shift towards retail participation of the Indian stock market by digital trading platforms coupled with increased financial awareness. However, the growth has been accompanied by rising speculative levels, and exposure to market moods. The study hypothesizes that the introduction of Wu Wei ideas in investor education and financial advisor behaviours would help foster a better responsible investment culture. To counteract the behavioral bias of most investors and their economic framework, financial practitioners can advise them to do less and better.

Besides, the research article belongs to the interdisciplinary conversation, which gains momentum nowadays, as it connects Eastern philosophy with the modern financial theory. Whereas behavioral finance is devoted to defining and explaining why people act irrationally, Wu Wei is prescriptive as to how to deal with this irrationality, in adopting an attitude of effortless action and detachedness. Through such a combination we can gain a more holistic understanding of the psychology of the investors and of discussing the mere quantitative models and the qualitative ones (as well as the philosophical ones).

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In practice the findings can be used in applications to asset management companies, policy makers and financial educators. It should encourage passive investment products, by investing in funds like ETFs and index funds, which should be promoted and educational courses carried out on long-term investment and emotional discipline would help in improving investor outcomes. Moreover, the philosophical insights like Wu Wei in financial literacy programmes may be of interest to investors on cognitive and cultural levels more so in a multi-ethnic and culture-oriented society like India.

Lastly, the discussion reveals the aspect that Wu Wei is not an unadulterated philosophical conceptualization but a practically viable concept of doing investments. It assists in active investing passivity and results in more consistent and acceptable financial judgment as it reduces cognitive discontinuity and builds consistency with market forces.

Conclusions

The paper comes up with a conclusion that the philosophy of Wu Wei plays a huge and creative role in the investment behavior of the investors in the passive market in the Indian stock market. The results of the empirical research made it clear that those investors who follow the principles of non-intervention, patience and natural disposition towards market forces are more inclined to apply passive investment strategies which include index investing and holding long-term portfolios. This underlines the overall thesis that disciplined and low-interference strategies may increase investment returns by reducing equilibrium transactions cost, and the effects of emotional decision-making.

The analysis also validates behavioral biases, which are the traps of overconfidence, herd effects, and loss aversion, contribute adversely to a rational choice of investment and reduces passive strategy adoption. Nevertheless, this pattern has been apparently countered by the existence of Wu Wei orientation amongst investors which happens to be a countering psychological mechanism. This marks the significance of incorporating philosophical views into financial decision-making models especially the emerging markets such as India where the contribution of retail investors is growing at a very high rate.

Moreover, the research confirms passive investing to be financially and behaviorally sustainable approach. Passive investing is in line with Wu Wei values, as it mitigates overtrading and exposure to market noise, enable long-term wealth generation. On the whole, the work is a valuable addition to the literature of behavioral finance as well as interdisciplinary research because it illustrates how ancient philosophical ideas could be used in solving the contemporary financial issues in practice.

Recommendations

In accordance with the study findings, the following are a few recommendations that could be given to investors, financial institutions, policymakers and researchers:

- **Education and Awareness of Investors:** Behavioral knowledge, which promotes responsible and long term investments, should be embraced in financial literacy modules and philosophical ideas like Wu Wei embraced. By educating investors about the pitfalls of overtrading and their emotional overreactions, a shift towards the passive side can also be promoted.
- **Passive Investment Product Advertising:** Asset management companies are highly encouraged to promote the low priced investment products such as ETFs and index funds. They can be made easy and affordable to retail investors, which will enhance the uptake of these products and financial inclusion.
- **Training Investors on Behavior:** Investors should be driven to adopt the habit of acting in a way that avoids cognitive biases, such as creating predetermined amounts to invest in, not looking at their portfolios frequently, and investing according to systematic investment plans (SIPs). These are highly consistent with ideals related to minimum intervention of Wu Wei.
- **Policy Support and Regulation:** Policy can be attracted by regulatory bodies like the Securities and Exchange Board of India to promote passive investment through taxation incentives, simplified procedures and to safeguard the investors. This will help bring about a stable and transparent investment environment.
- **Intelligibility in Financial Advise Services:** Financial advisors should incorporate the behavioral finance with the philosophical aspect of the advisory models. Long-term and non-reactive thinking on the client will boost performance in a portfolio and client satisfaction.

- **Future Research Scope Opportunity:** A future research may enhance this scope by adding more sample size, more geographical areas and analogy of active and passive investors. In addition, longitudinal studies can be performed, however, these studies need to assess the impact of Wu Wei-oriented investing in a long-term perspective.
- **Digital Platform Interventions:** Nudges that can be embedded in the online trading interfaces may include: Suspicions of overtrading, long-term investment perspectives, learning materials that support passive investment behaviours.

In conclusion, the principles of Wu Wei can be an efficient tool to transform irrational investors into more rational people, more financially disciplined and generate wealth in a sustainable manner. Philosophy and finance may take a very niche and effective role in increasing investor performance in the Indian dynamic financial environment.

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