



What is Market Mood Index? Everything You Need to Know

Have you heard of the term market mood index? Do you know how to ascertain the mood of the market, when investing in mutual funds like an equity fund, debt funds or hybrid funds? Is it important to consider market mood index Nifty, while investing via SIP in equity funds? Here is everything you need to know about the Nifty mood index and market mood index NSE.

Understanding Market Mood Index (MMI)

Developed in 2004 by the US-based company MarketPsych, which deals with quantitative behavioural finance research, the market mood index is a market mood indicator focused on assessing the underlying mood or sentiment of a particular market. This could be any index, from the Nifty to the larger NSE, or even the US-based Nasdaq, and the market mood index chart offers investors sharp insights into where the market is likely to head, based on the sentiment being depicted by participants. It is a sentiment metric, which started out in a survey-based model, and has now transformed into a sophisticated index harnessing the capabilities of innovations such as machine learning, natural language processing and sentiment analysis.

At present, the prevailing market mood index leverages data points such as the emotions of participants, prediction and price action, geopolitical and economic cues, management and fundamentals and ESG or environmental, sustainability, and governance norms, to arrive at the mood of the market and its constituent stocks. On a global scale, the MMI currently encompasses more than 200 countries, over 1 lakh listed companies, over 50 commodities, more than 40 currencies and over 500 digital currencies, making it a comprehensive metric measuring the mood of the market at large.

Interpreting Market Mood Index

The Market Mood Index is typically expressed as a numerical value, spanning from 0 to 100, with 50 serving as the neutral midpoint. Scores falling below 50 indicate a pessimistic or bearish market sentiment, while those surpassing 50 reflect optimism and a bullish outlook. This metric holds significance for stock traders and investors alike, aiding them in making well-informed decisions. Furthermore, mutual fund investors can also leverage the MMI to gauge the overarching market sentiment and adjust their strategies accordingly. For example, if an investor is considering the purchase of NIFTY Futures or an individual stock for short-term or intraday trading, an MMI score within the range of 60-80 can provide added confidence. This is because it indicates that a majority of market participants share an optimistic view of the Indian market, influencing the investor's decision-making process.

Benefits of Market Mood Index

There are many benefits to following the ubiquitous market mood index and it can be encapsulated as follows. Firstly, the index offers a quick and efficient perspective regarding the current sentiment ruling the market and understanding this aspect will enable you to undertake successful trades and investments. You can also use the index to take contrarian calls; if you are certain that the sentiment depicted by the market is misplaced, offering you the opportunity to make unprecedented gains. Further, when investing, it is important to always be informed about the nitty-gritty of the market and with the MMI; you can get a clearer idea of where the market is headed, without relying solely on fundamental and technical analysis. The metric can be an essential data point, while placing large bets in the market. Thirdly, the MMI can help you assess and understand the impact of external events, such as changes in government norms, the progress in environmental issues, and aspects such as the geopolitical turmoil currently occurring in Israel, on the sentiment in the market. This can help you build the right positions, thereby reducing risk and boosting the potential for successful outcomes.

Alternatives to consider

So, is the market mood index your only option to check the sentiment of the market or are there other alternatives you can consider? To keep a pulse on the mood of the Indian market, you can also use alternatives to the market mood index, such as the India VIX Index and the Fear and Greed Index (FGI). In 2004, the NSE introduced the India VIX Index, designed to gauge the market's near-term volatility and fluctuations by analysing index option prices. It is widely accepted that a higher VIX indicates increased anticipated volatility and heightened investment risk. The Fear and Greed Index, or FGI, is categorised into four segments: Extreme Fear (<30), Fear (30-50), Greed (50-70), and Extreme Greed (>70). When the market registers Extreme Fear, it is generally seen as a favourable opportunity to initiate new buy trades, as it suggests an oversold market. Conversely, caution is advised when the FGI enters the Extreme Greed zone, signalling an overbought market, which traders and investors should approach prudently. These two alternative indexes can hold you in good stead when considering investment and trading decisions.

Now that you know all about the market mood index, and its importance when making investment calls, you can navigate the market optimally. Do take note of and remember the oft-repeated quote by Warren Buffett, “Be fearful when others are greedy and greedy when others are fearful”, to ensure superlative investing outcomes.

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