

STUDY ON INVESTOR'S PERCEPTION TOWARDS TRADING IN EQUITY DERIVATIVES

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ABSTRACT

The Indian Stock marketplace absolutely experienced remarkable increase inside the trading pastime in the last 25 years. The Derivatives section of the market commenced its operations with the launch of Index Futures by way of the National Stock change of India (NSE) within the 12 months 2000. Due to some adverse changes in this, which threatened the survival of business world. Therefore, in order to manage such risk, the new instruments have been developed in the financial markets, which are popularly known as financial derivatives at national and international financial market. Now there is a faster development in derivatives products as well as trading as they are very significant for every corporate and investor. The derivatives segment is to be handled by the SEBI. Derivatives segment is normal use by the trading purpose and other hand hedging purpose. In this research paper we have try to find the investors perception towards the derivatives market. Here we have found the popular strategy along with the all strategies also try to find the relation between the income and spent in the derivatives market. We have found out the psychology towards the derivatives instrument and then which problem facing the derivatives market by the investors.

Keywords: Derivatives, Investor, Financial Market

INTRODUCTION

Equity Derivatives is the instrument which is the contract between two parties' buyers and sellers. In simple term derivatives is to be made a contract for particular underlying asset for particular time period. Most probably derivatives participants are hedger, traders and arbitrageurs. Derivatives are based on underlying assets like commodity (gold, copper & zinc, silver) stocks (any particular stocks) index (nifty, bank nifty and fin nifty) and currency. This instruments are most probably use for hedging your risk and wealth maximization.

Products in Derivatives Market

Forwards: -Forward is a modify derivatives done by investor with trading at a prescribed value on a future date.

Futures: - Future is contract when two parties come to trade for resource or asset at a fixed price with mention date in future.

Options: - Option is a derivative instrument that issue the right to trade in equity or other security at a prescribed value in advanced of future date..

Swaps: - A Swaps is a contract where we trade with income or liabilities from two different instrument.

Market Participants of Derivatives

Hedgers: -Hedgers participate in the derivative market with an opposite position to lock the price in the derivative market. Hedgers take part within the marketplace with an opposite function to lock the rate in the by-product marketplace.

Speculators: -Speculators experience the profit whiles the price of the underlying movements as according to their expectation and go through loss for the movement in contrary direction.

Arbitrageurs: -Arbitrageurs take positions in financial markets to earn risk-free or low-risk profits. The arbitrageurs take brief and lengthy positions within the same or different contracts on the equal time to create a

role which can generate safe earnings.

Evolution of Derivatives

14 December 1995	NSE asked SEBI for permission to trade index futures.
18 November 1996	SEBI setup L. C. Gupta Committee to draft a policy framework for index futures.
11 May 1998	L. C. Gupta Committee submitted report
7 July 1999	RBI gave permission for OTC forward rate agreements (FRAs) and interest rate swaps
24 May 2000	SIMEX chose Nifty for trading futures and options on an Indian index.
25 May 2000	SEBI gave permission to NSE and BSE to do index futures trading.
9 June 2000	2000 Trading of BSE Sensex futures commenced at BSE
12 June 2000	Trading of Nifty futures commenced at NSE.
31 August 2000	Trading of futures and options on Nifty to commence at SIMEX
June 2001	Trading of Equity Index Options at NSE
July 2001	Trading of Stock Options at NSE
November 9, 2002	Trading of Single Stock futures at BSE
June 2003	Trading of Interest Rate Futures at NSE
September 13, 2004	Weekly Options at BSE
September 2015	Subsequent to the passing of the Finance Act 2015, Forward Markets Commission (FMC) was merged with SEBI
January 1, 2008	1.Trading of Chhota(Mini) Sensex at BSE 2. Trading of Mini Index Futures & option at BSE
August 29,2008	Trading of Currency

LITERATURE REVIEW

(Ravichandran, 2008) noted that trading in stock market is big challenge for Vocational. Derivatives are reducing the risk to invest in stock market for getting the good results. Investors should be aware of the various trading strategies, which can be used for reducing their risk. It can use and help investors to reduce their risk, maximize profits and minimize the high risk of stock market.

(Mr.Thamotharan.A,Dr.G.Prabakaran,2013) reviewing The Investors' Perception on Derivatives Market, taking the investors from broking firm, data collected on 2012,Highlighted the points of scope of current earnings and capital appreciation in market of India. If trust, guidance and regulations were not exists it cannot be possible for brokers and investors to survived in market. New techniques and technology can helps to give understanding, market information through online and offline can be impacted and create more opportunities for investors. Moreover, brokers and investors ought to make a continuous cooperation with the current and proposed clients to draw in additional investors towards the derivatives market.

(K.Sarathkumarm Dr. SP. Dhandhayuthapani, 2016) arrives at a conclusion that the disposition of Investor's is changing towards derivatives market in India. Some risk takers want to earn profits in less time period so they try to invest in derivatives market. Others with low risk takers considering fixed deposits, debt market instruments which is low risk free. Derivatives Market provides advantage of hedging that give comparatively low risk and derivatives is maximizing the offers to get more returns and with less loss of return. Awareness of Derivatives trading in India has increased in nature from last few years.

(Sreelekha Upputuri, Dr. M. S. V Prasad, Mrs. Sandhya Sri, 2020) arrives at a conclusion that Investing in derivatives require extra than commonplace appreciation of finance. Being new to markets maximum wide form of investors have now not yet understood the total implications of the shopping for and promoting in derivatives. SEBI need to take movements to make cognizance in traders approximately the spinoff marketplace.

OBJECTIVES OF STUDY

- ✓ To analyze the problems face in equity derivatives market
- ✓ To analyze Investors behavior on derivatives market

- ✓ To examine most popular strategies of derivatives market
- ✓ To examine the relation between experience investors to spent in derivatives market

SIGNIFICANCE OF STUDY

In India, Derivatives Market is a huge market. Already similar studies have done in derivatives market. This study covers the investor's perception and problems they face while trading in derivatives market. This study is helpful to the investors and future investors to understand how most preferable tools they adopt and which strategies trending now days in derivatives market. This study is also helpful to get an idea about what are the problems that investors face while investing or trading in derivatives market which can beneficial for bug institutional to aware on future things.

RESEARCH METHODOLOGY

Research Design:

Sampling frame	All Investors from India
Sampling unit	Individual Investor from India
Sample size	173
Sampling Technique	Google form sent to investors with structured questionnaire.
Project Instruments	Questionnaire
Analysis Technique	Chi Square test
Statistical Tools	MS Excel. SPSS

DATA ANALYSIS AND INTERPRETATION

Table 1

Demographic Frequency Distribution

	Category	Frequency	Percentage
Gender	Male	113	65.3
	Female	60	34.7
	Total	173	100

(Source data: Primary data)

Demographic Variable	Category	Frequency	Percentage
Age of Investor	Below 25 Years	117	67.6
	25 to 30 Years	19	11
	30 to 40 Years	18	10.4
	40 to 50 years	8	4.6
	Above 50 Years	11	6.4
	Total	173	100

(Source data: Primary data)

Demographic Variable	Category	Frequency	Percentage
Occupation of Investor	Businessman	22	12.7
	Professional	15	8.7
	Employment	45	26
	Student	91	52.6
	Total	173	100

(Source data: Primary data)

- In the demographic analysis, it is found that male respondents (65.3%) are twice the female respondents (34.7%). Majority of the respondents i.e., 38% are from the age group of below 25 years.
- This category is followed by 11% respondents who are from the age group of 25 to 30 years. The respondents belonging to the age group of 30 to 40 years and 40-50 years jointly form 15%.
- Only 6.5% of the respondents are above the age of 50 years and above. It is also found that the majority of the respondents accounting to 52.6% are students, followed by the businessman and professional are 12.7% and 8.7% respectively.

NORMALITY TEST

Tests of Normality						
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Better than other investment instrument	0.182	173	<.001	0.891	173	<.001
Tax benefit	0.21	173	<.001	0.905	173	<.001
highest rate of return	0.188	173	<.001	0.904	173	<.001
Annual pool of saving	0.208	173	<.001	0.893	173	<.001
Higher Income of the Investor	0.204	173	<.001	0.905	173	<.001
Family and Friends	0.234	173	<.001	0.89	173	<.001
Unlimited Profit	0.194	173	<.001	0.893	173	<.001
Complicated Application Procedures	0.161	173	<.001	0.902	173	<.001
Lack of Information	0.179	173	<.001	0.906	173	<.001
Internet Failure	0.208	173	<.001	0.91	173	<.001
Stock exchange sites becomes busy during peak hours	0.19	173	<.001	0.914	173	<.001
Too much Volatility	0.192	173	<.001	0.912	173	<.001
Unfair practices of brokers	0.198	173	<.001	0.912	173	<.001
Too much price Manipulation	0.198	173	<.001	0.902	173	<.001

(Source data: Research Data)

Interpretation

From the above Normality table for checking the perception of Investors demography profile towards investors preference it had been noticed that the P value for all the component are less than 0.05 which indicates the rejection of Null Hypothesis due to which they are not normally distributed among each other and hence needs to go with Non-Parametric version of testing for further analysis as a part of providing inferential statistics.

REALIBILITY TEST

Reliability Statistics	
Cronbach's Alpha	N of Items
0.910	14

From the above table It had been noticed that the researcher had applied total 14 variables to check the perception of Investors towards the Derivatives market in India. The value of Cronbach's Alpha is 0.910 which is greater than 0.7 which proves the higher consistency among all the variables.

Inferential Analysis

Chi-Square Test -1

H₀ : There is no significant relation among the variables. If 'p' value is more than 0.5, it is more significance level so it will rejected province. Hence it is conferred that there is no significant association between variable.

H₁ : There is significant relation among the variables. If 'p' value is less than 0.5, it is less than of significance level so it will accepted province. Hence it is conferred that there is significant association between variable.

Table 1 Chi-square test for testing the significance among the variables

SI No.	Comparison of variables	Chi-square value	D.F.	P value	Sig.
1	Age and Better than other investment's return like Bank Deposits	29.783	16	0.019	Sig.
2	Age and Higher Rate of Return	29.788	16	0.019	Sig.
3	Age and Family and Friends	44.723	16	0.001	Sig.
4	Gender and Tax benefit to investor	3.238	4	0.519	sig.
5	Occupation and Annual Pool of savings	23.042	12	0.027	Sig.
6	Occupation and Higher Income of the	20.994	12	0.050	Sig.

	Investor				
7	Occupation and Unlimited Profit	32.244	12	0.001	Sig.

The above table gives an idea among the relationship between variables. It is used to find out the variables to determine that investor behavior towards trading in derivatives market. Age has influence in Better than other investment's return factor, Higher rate of return and Family and Friends. Gender has not influenced with tax benefit to investor. Occupation has influenced in Annual pool of savings, Higher income of the investor and Unlimited Profit. These variables are having significant influence on investor behavior on derivatives market.

Chi-SquareTest-2

H0 : There is no significant relation among the variables. If 'p' value is more than 0.5, it is more significance level so it will rejected province. Hence it is conferred that there is no significant association between variable.

H1 : There is significant relation among the variables. If 'p' value is less than 0.5, it is less than of significance level so it will accepted province. Hence it is conferred that there is significant association between variable.

Table 1 Chi-square test for testing the significance among the variables

SI No.	Comparison of variables	Chi-square value	D.F.	P value	Sig.
1	Occupation and Complicated Application Procedures	26.562	12	0.009	Sig.
2	Occupation and Lack of Information	30.326	12	0.002	Sig.
3	Occupation and Internet Failure	21.224	12	0.047	Sig.
4	Occupation and Stock exchanges sites becomes busy during peak hours	13.863	12	0.310	sig.
5	Occupation and Too much volatility	18.272	12	0.108	Sig.
6	Occupation and Unfair practices of brokers	25.115	12	0.014	Sig
7	Occupation and Too much price manipulation	20.069	12	0.066	Sig.

The above table gives an idea among the relationship between variables. It is used to find out the variables to determine that investor problems towards trading in derivatives market. Occupation and variables become significant in case of complicated application procedures, lack of information, internet failure, unfair practices of brokers. These variables are creating problems on investor in derivatives market. Occupation and variables become insignificant in case of stock exchanges sites becomes busy during peak hours, too much volatility, too much price manipulation.

Chi-SquareTest-3

Annual Income and Respondents spending in derivatives market

Hypothesis(H0):The spending of respondent in derivatives market is not dependent on the annual income of the respondent.

Hypothesis(H1):The spending of respondent in derivatives market is dependent on the annual income of the respondent.

Annual Income of Consumer * Amount Spent by Investor in Derivatives Market Cross tabulation						
Count		Amount Spent by Investor in Derivatives Market				Total
		Less than 50,000	50,000 to 1,00,000	1,00,000 to 5,00,000	5,00,000 to 10,00,000	
Annual Income of Consumer	Less than 2,50,000	75	5	5	0	85

	2,50,000 to 5,00,000	32	8	5	0	45
	5,00,000 to 10,00,000	17	9	4	0	30
	More than 10,00,000	4	2	3	4	13
Total		128	24	17	4	173

(Source data: Research Output)

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	70.283 ^a	9	0.000
Likelihood Ratio	41.841	9	0.000
Linear-by-Linear Association	30.729	1	0.000
N of Valid Cases	173		

a. 9 cells (56.3%) have expected count less than 5. The minimum expected count is .30.

(Source data: Research Output)

Answer: Here, the value of Chi-square P -value/ Likelihood ratio (0.000) is less than value of alpha (0.05). Thus, H₀ is rejected.

Now here we can say that the spending of respondent in derivatives market is dependent on the annual income of the respondent.

CONCLUSION

Derivatives acts as a major tool for reducing the risk involved in investing in stock markets for getting the best result out of it. The investors should be aware of the speculation strategies, which can be used for reducing their risk. Some of problems that can be seen in research which may can reduce with future research. It has been noticed that there has been awareness about derivatives trading amongst the investors in India since last few years.

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