

**A STUDY ON THE AWARENESS OF DERIVATIVES AMONG
RETAIL INVESTORS IN TRICHY**

K.Vignesh*

Dr. Albin D. Robert Lawrence**

**II Year MBA Student, School of Management, SASTRA University, Thanjavur, South India*

***Assistant Professor, School of Management, SASTRA University, Thanjavur, South India*

ABSTRACT

The emergence of the market for derivative products, most notably forwards, futures and options, can be traced back to the willingness of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices. By their very nature, the financial markets are marked by a very high degree of volatility. Derivatives are deriving their value from an underlying asset and act as risk management instruments. The underlying asset may be in the form of bullion, index, share, bonds, currency interest, etc. Banks, securities firms, companies and investors to hedge risks, to gain access to cheaper money and to make profit, use derivatives. Derivatives are likely to grow even faster in future. Primary data were collected from 147 respondents for the purpose of analyzing with the help of questionnaire. Statistical tools such as descriptive analysis and ANOVA are used for analyzing the data. From the analysis of data, the reliability indicator cronbach's alpha value is (0.852).

INTRODUCTION

A derivative instrument is a contract between two parties that specifies conditions (especially the dates, resulting values of the underlying variables, and national amounts) under which payments are to be made between the parties. Derivatives have fundamentally changed financial management by providing new tool for managing risk. This study was undertaken to find out the awareness level of various derivative instruments and also to find out their risk preference in various segments. Even though the level of knowledge of the investors in the Derivative market and products is not adequate, they tend to take decisions with the help of the brokers and were trying to invest in this market.

REVIEW OF LITERATURE

Revathi Pandian (2015), the derivative market is new to India and it is not known by each and every investor, so SEBI has to create awareness among the investors about the derivative segment. In cash market the profit/loss of the investor depends on the market price of the underlying asset. The investor may incur huge profit or huge loss. But in derivatives segment the investor enjoys huge profits with limited downside. Derivatives are often used for hedging purpose. In order to increase the derivatives market in India, SEBI should revise some of their regulations like contract size, participation of FII in the derivatives market. In a nutshell the author throws a light on the derivatives market.

Gunjan Tripathi (2014), in his article ‘An Empirical Investigation of Investors Perception towards Derivative Trading’ the main preference of investor is to invest in real estate and insurance, it offers minimum risk to the investors in return. In a study on the perception of stock market investments among government employees in Calicut city most of the respondents used to invest their money in association with more safety. This study helps to give some knowledge about derivatives which is also a investment avenue where they can play safely.

Mayadevi thampatty P.C (2014), concluded that Government employees have the perception that share market investments offer high returns with high risk whereas bank investments offer reasonable return with low risk. Since they are highly risk averse as an investment option government employees prefer bank investment over stock market investment.

Tripathi (2014), in his article deals with perception of the investors towards derivative trading. The study shows Indian investors mainly invest their money in real estate and insurance as they are the options offerings minimum risks associated with it and also offers great returns.

Y. Nagaraju (2014), studied investors’ perceptions towards derivative instruments and markets. The study shows that even though most of the investors look at derivatives with fear, they should understand the fact that it helps in shifting the risk to the other party. Derivative markets are surrounded by lots of myth. All these can be done away with proper system in place. After the study it is clear that derivative instruments and derivative markets are not so popular among retail investors.

Gou (2013), the study was undertaken on “Retail Investor’s Behavior towards Securities”. This study examine that Investing in various types of assets is an interesting activity that attracts people from irrespective of their occupation, economic status, education and family background. This study mainly aims at to analyze the profile and investment choice of investor’s decisions. This Study also revealed that more number of educated people are entering in to the capital market for investing their money and make profit. It is a good sign that the investing attitude of the retail investor are increasing.

Shanmunga Sundaram V (2011), examined the impact of behavioral dimensions of investors in Capital market and found that investor decisions are influenced by psychological factors as well as behavioral dimensions and this psychological effect is created by the fear of losing money, sudden decline in stock indices, greed and lack of confidence about their decision making capability.

Srivatsava (2008), author states in this article that in India 25-30 per cent of the total trading turnover of the derivative segment is contributed by the retail investors. Futures on individual shares were the maximum trading by the retail investors. The study found these securities for different purposes by the investors like risk management, profit enhancement, speculation and arbitrage.

Szyska Adam (2008), found how investors’ psychology changes the vision of financial markets and discussed the consequences of the new view of finance by capital market practitioners-investors, corporate policy makers and concluded with some thoughts on the future development of the capital market theory.

Hvidkjaer S (2008), analyzed the relationship between retail investor trading behavior and the cross section of future stock returns. The result suggests that stocks favored by retail investors subsequently experience prolonged underperformance relative to stock out of favor with them. This results link the systematic component of retail investor behavior to future returns, i.e., informed investors might begin selling stocks that they believe to be overvalued.

Dr. K. Ravichandran (2008) this study was undertaken to find out the awareness level of various capital market instruments and also to find out their risk preference in various segments. This Study Intends 1) to find out the preference level of investors on various Capital Market instruments

2) to find out the type of risk which are considered by the investors 3) to find out the ways through which the investors on various minimizes their risk 4) to find out the preferences of Investors in derivatives market. About 100 samples were collected from Chennai city from various investors through a structured questionnaire and awareness about derivatives and the investor risk preference in an elaborate way.

Lovric M. (2008) presented a description model of individual investor behavior in which investment decisions are seen as an iterative process of interactions between the investor and the investment environment. The investment process was influenced by a number of interdependent variables. They suggested that this conceptual model can be used to build stylized representations of individual investors and further studied using the paradigm of agent-based artificial financial markets.

SCOPE OF THE STUDY:

The study is to measure the awareness level of retail investors on derivatives market, product and SEBI guidelines on grievances and redressal. The study has made a humble attempt of examine the awareness level of retail investors in Trichy city. Data are collected from 150 respondents for the purpose of analysis, so the results may have bias and they are subjected to any alteration in future.

OBJECTIVES OF THE STUDY

- To study the level of awareness on derivative market, product, clearing houses among the respondents.
- To find out the awareness level of the respondents on settlement cycle.
- Also to enhance the level of understanding on grievances and redressal system governing by SEBI from among the respondents.

LIMITATIONS OF THE STUDY:

The data collection is based on the questionnaire, so the result would be varying according to the opinion of retail investors. The sample chosen for the study is confined with the retail investors in Trichy district. The statistical tools used to analyze the data have their own limitations. The finding of this study may have some bias because of limited respondents, so it cannot be generalized.

RESEARCH METHODOLOGY:

1. FREQUENCY ANALYSIS:

Demographic variables	No of respondents	Percentage
Gender		
Male	105	71.4
Female	42	28.6
Age		
Below 20 years	12	8.2
21 - 30 years	67	45.6
31- 40 years	33	22.4
41-50 years	19	12.9
50 and above	16	10.9
Annual income		
Below 2,50,000	25	17.0
2,50,001-5,00,000	75	51.0
5,00,001-10,00,000	41	27.9
Above 10,00,000	6	4.1
Investment Preference		
Only equity	35	23.8
Only equity derivative	37	25.2
Only commodities	4	2.7
Both A and B	35	23.8
Both A and C	12	8.2
Both B and C	18	12.2
A,B and C	6	4.1

Demographic variables	No of respondents	Percentage
Gender		
Male	105	71.4
Female	42	28.6
Percentage of investment in stock market		
<5%	11	7.5
5% - 10%	44	29.9
11% - 15%	54	36.7
16%-20%	30	20.4
Above 20%	8	5.4

(Source: Primary Data)

2. ANOVA:

ANOVA-Test for Gender and the knowledge on derivative products

H0 = There is no significant relationship between the gender of the respondents and the knowledge of respondents on derivative product.

H1 = There is significant relationship between the gender of the respondents and the knowledge of respondents on derivative product.

Knowledge on derivative products	Type of Statement	Mean	Sig	S.D	Result
Forward is a contract between two parties.	True	4.2177	.123	.96	Accept H0
Forward contract settlement can be based on both cash and physical settlement.	True	3.7551	.189	1.07	Accept H0
There is no counter party risk in forward contract.	False	3.3401	.820	1.37	Accept H0
Forward contract are traded in stock exchange.	False	3.5782	.833	1.11	Accept H0

Future is an agreement between parties.	True	3.6735	.694	1.05	Accept H0
Futures can be traded on over the counter (OTC).	False	3.4150	.585	1.18	Accept H0
Margin money is compulsory for future trading.	True	4.0204	.732	1.14	Accept H0
Options are traded only in OTC.	False	3.6054	.558	1.11	Accept H0
Call option gives the holder the right, but not the obligation to buy.	True	3.5646	.678	1.19	Accept H0
Put option means granting right to the buyer of the option to sell an underlying assets but not the obligation.	True	3.4150	.478	1.13	Accept H0
The holder of the option unable to sell until the option is on its expiration date is known as American option.	False	3.2925	.678	1.19	Accept H0
The holder of the option having right to exercise that option at any time on or before that date is known as European option.	False	3.2721	.170	1.25	Accept H0

(Source: Primary Data)

ANOVA-Test for Age and the knowledge on derivative products

H0 = There is no significant relationship between the age of the respondents and the knowledge of respondents on derivative product.

H1 = There is significant relationship between the age of the respondents and the knowledge of respondents on derivative product.

Knowledge on derivative products	Type of Statement	Mean	Sig	S.D	Result
Forward is a contract between two parties	True	4.2177	.050	.96	Accept H0
Forward contract settlement can be based on both cash and physical settlement.	True	3.7551	.005	1.07	Reject H0
There is no counter party risk in forward contract.	False	3.3401	.640	1.37	Accept H0

Forward contract are traded in stock exchange.	False	3.5782	.159	1.11	Accept H0
Future is an agreement between parties.	True	3.6735	.475	1.05	Accept H0
Futures can be traded on over the counter (OTC).	False	3.4150	.582	1.18	Accept H0
Margin money is compulsory for future trading.	True	4.0204	.573	1.14	Accept H0
Options are traded only in OTC.	False	3.6054	.152	1.11	Accept H0
Call option gives the holder the right, but not the obligation to buy.	True	3.5646	.091	1.19	Accept H0
Put option means granting right to the buyer of the option to sell an underlying assets but not the obligation.	True	3.4150	.589	1.13	Accept H0
The holder of the option unable to sell until the option is on its expiration date is known as American option.	False	3.2925	.331	1.19	Accept H0
The holder of the option having right to exercise that option at any time on or before that date is known as European option.	False	3.2721	.029	1.25	Reject H0

(Source: Primary Data)

ANOVA-Test for Income and the knowledge on settlement cycle

H0 = There is no significant relationship between the income of the respondents and the level of knowledge on settlement cycle.

H1 = There is significant relationship between the income of the respondents and the level of knowledge on settlement cycle.

The knowledge on settlement cycle	Type of Statement	Mean	Sig	S.D	Result
Settlement dates are fixed by the parties in forward contract	True	3.3333	.308	1.257	Accept H0
Fixed settlement dates are fixed by stock exchange regarding futures	True	3.9524	.025	2.554	Reject H0
Settlement of the contract takes place on t+3 days	False	3.5918	.433	1.071	Accept H0

(Source: Primary Data)

ANOVA-Test for Investment preference and the knowledge on clearing house

H0 = There is no significant relationship between the investment preference of the respondents and the knowledge on clearing house among the respondents.

H1 = There is significant relationship between the investment preference of the respondents and the knowledge on clearing house among the respondents.

The knowledge on clearing house	Type of Statement	Mean	Sig	S.D	Result
Counter party risk is protected by clearing house.	True	3.6463	.223	1.18	Accept H0
MCX-SX clearing corporation Ltd. (MCX-SXCCL) is acting as clearing house only for commodities.	True	3.4762	.040	1.09	Reject H0
National securities clearing corporation Ltd (NSCCL) is acting as clearing house to avoid counter party risk.	True	3.3129	.516	1.19	Accept H0
Indian clearing corporation Ltd. (ICCL) is not a clearing house.	False	3.2789	.290	1.04	Accept H0

(Source: Primary Data)

ANOVA-Test for % of annual income invested and the knowledge on grievances and redressal system

H0 = There is no significant relationship between the percentage of annual income invested in capital market and the knowledge on grievances and redressal.

H1 = There is significant relationship between the percentage of annual income invested in capital market and the knowledge on grievances and redressal.

Knowledge on grievances and redressal system	Type of Statement	Mean	Sig	S.D	Result
One of the key components of SEBI is to redressal of investor grievances.	True	3.4830	.647	1.112	Accept H0
SEBI Complaint Redressal System (SCORE) is performing as dispute solving department on behalf of SEBI.	True	3.5986	.581	1.044	Accept H0

Complaint against a company before listing can be lodged in SCORE.	True	3.4286	.591	1.104	Accept H0
Disputes arising out of private agreement with companies or intermediaries are not a complaint accepted by SCORE.	False	3.3333	.127	1.189	Accept H0
Complaints that are in the purview of some other regulators or agencies are not dealt by SEBI.	True	3.2517	.261	1.187	Accept H0
Complaint against insider trading and price manipulation can be registered with SCORE.	False	3.4014	.631	1.286	Accept H0
Complaint about market manipulation is not entertained by SCORE.	True	3.4286	.080	1.153	Accept H0

(Source: Primary Data)

FINDINGS

It was observed that most of the respondents (25.2%) were used to invest only in equity derivatives. It is interesting to note that 36.7% of the respondents are willing to invest 11%-15% of their annual income in capital market. The knowledge level on National commodity and derivative exchange was not good among the respondents because they agreed that only agricultural products are traded in these exchanges. This has significance with investment preference of the respondents. The awareness level on counter party risk and the trading mechanism of forward contract were unfamiliar among the respondents and it has significance with the investment preference of the respondents. The knowledge level on clearing houses and settlement cycle are high among the respondents which also has significance with age, gender and investment preference of the respondents. The retail investors are familiar with the grievances and redressal system governing by SEBI and it also has significance with the respondent's age, gender and investment preference.

RECOMMENDATIONS:

The knowledge level of respondents in derivative market and product is not up to the mark, most of the retail investors are not even aware of derivatives. This is the main reason that most of the investors are not trading in derivatives products. SEBI has to identify the areas where the retail investor lack awareness and would guide them in hosting awareness programmes and campaigns.

The stock broking firms also help the retail investors by giving proper guidance, for trading in derivative products.

CONCLUSION:

The retail investors are not much aware of derivative market since more than 15 years were surpassed after the introduction of derivative instruments in India. The brokers of derivative market can make more retail investors aware of their great opportunity and encourage them to invest in derivative instruments. Commodity market in India is also in a premature stage. It should be given a helping hand by the concerned authorities to increase its depth. So it is concluded that proper awareness programs must be needed for the retail investor to have the basic knowledge on derivative market, product and grievances and redressal system.

REFERENCE:

- Gunjan, T. (2014). An empirical investigation of investors perception towards derivative trading. *Global journal of finance and management*, 6(2), 99-104.
- Gou, Y. (2013). Retail Investor's Behavior towards Securities; A case study of Rohtak City. *Asian Journal of Business and Economics*, 3.
- Lovric, M. K. a. (2008). A Conceptual Model of Investor Behaviour. *Erasmus Research Institute of Management (ERIM)*, 17(1), 30 - 45.
- Mayadevi thampatty P.C, M. k. (2014). A study on the perception of stock market investments among government employees in Calicut city. *Asian Journal of Management Research*, 4(3), 501-508.
- Ravichandran, D. K. (2008). A study on Investors Preferences towards various investment avenues in Capital Market with special reference to Derivatives. *Journal of Contemporary Research in Management*, 101-112.
- Shanmugasundaram.V. (2011). The impact of behavioural bias of investors in Capital market. *South Asia Journal of Socio Political Studies, SAJOSPS*, 10(1), 99 -102.

Nagaraju, Y. (2014). A study on investors' perceptions towards derivative instruments and markets. *International Journal of Research in Commerce, Economics and Management*, 4(7).

Tripathi, G. (2014). An Empirical Investigation of Investors Perception towards Derivative Trading. *Global Journal of Finance and Management*, 6(2), 99-104.

Srivastava, S. S. (2008). Derivative Trading in Indian Stock Market: Broker's Perception. *IIMB Management Review*, 20.

Adam, S. (2008). Small Trades and the Cross-section of Stock Returns. *The Review of Financial Studies*, 21(3), 1123 - 1151.

Hvidkjaer.S. (2008). Small Trades and the Cross-section of Stock Returns,, Vol. 21, No.3, pp. . *The Review of Financial Studies*, 21, 1123-1151.
