

INVESTOR'S PREFERENCE TOWARDS DERIVATIVE MARKET

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Abstract: Financial derivatives have taken a leading place among the various investment instruments and very famous for investment especially future, option and bank nifty amongst the investors. The preference of investment instrument changes over a period of time to fluctuation in market. We found lot of fluctuations in market from last few year which leads investors to use derivative product for the purpose of risk management. Therefore the purpose of research was to measure the preference of investors towards derivative market. Researcher also like to identify the product choices and purposes for investing in derivative market. The frequency distribution and chi-square test was used to measure the association between demographic variables and product preference & purposes of investment in derivative market. The study found that majority of investors preferred future and option and transferability of risk and high return were purposes for investment in derivative market.

Key Words: Future, Option, transferability of risk

INTRODUCTION

In India, derivatives markets have been functioning since the nineteenth century, with organized trading in cotton through the establishment of the Cotton Trade Association in 1875. Derivatives, as exchange-traded financial instruments, were introduced in India in June 2000. The National Stock Exchange (NSE) is the largest in India in derivatives, trading in various derivatives contracts. The first contract to be launched on NSE was the Nifty 50 index futures contract. One and a half years after the introduction of index futures, index options, stock options, and stock futures were also introduced in the derivatives segment for trading. NSE's equity derivatives segment is called the Futures & Options Segment or F&O Segment. NSE also trades in Currency and Interest Rate Futures contracts under a separate segment.

A series of reforms in the financial markets paved way for the development of exchange-traded equity derivatives markets in India. In 1993, the NSE was established as an electronic, national exchange and it started operations in 1994. It improved the efficiency and transparency of the stock markets by offering a fully automated screen-based trading system with real-time price dissemination.

A report on exchange-traded derivatives, by the L.C. Gupta Committee, set up by the Securities and Exchange Board of India (SEBI), recommended a phased introduction of derivatives instruments with bi-level regulation (i.e., self-regulation by exchanges, with SEBI providing the overall regulatory and supervisory role). Another report, by the J.R. Varna Committee in 1998, worked out the various operational details such as margining and risk management systems for these instruments.

LITERATURE REVIEWS

Fauver and Naranjo researched "Derivative Usage and Firm Value: The Influence of Agency Costs and monitoring Problems in the year 2012. The study concludes firms that are effectively using the derivative instruments generate wealth to the shareholders, magnify the indigeneity in the value of the firm, and hedge research and direct impact on firm value. Using derivative usage data on over 1745 firms headquartered in the U.S. during 1991 through 2000 time period, we find that firms with greater agency and monitoring problems (i.e., firms that are less transparent, face greater agency costs, have weaker corporate governance larger information asymmetry problems, and overall poorer monitoring) exhibit a negative association between Tobin's Q and derivative usage. We also collect and create various firm-level financial and control variables that we use in our regression analysis, including firm-level data on agency costs, corporate governance, and information asymmetry variables.

Gakhar and Meetu, studied the evolution of the Indian derivative market, the trading mechanism in its various products, and the prospects of the Indian derivative market. The data were collected in the year 2013 and respondents is 215. They found that despite the growth in the derivatives market there are many issues like lack of economies of scale, tax, and legal bottlenecks, increased off-balancesheet bank need for an independent regulator, etc., which needs to be immediately resolved to enhance the investors' confidence in the Indian derivative market. The main objective of this study is to evaluate products of derivatives i.e. Forwards, Futures, Swaps, and Options, To critically analyze its participants i.e. Hedgers, Speculators, and Arbitrageurs.

Thamotharan and Prabhakaran studied investors' perception towards the Derivatives market and found that age has a significant impact on investment and education qualification has a significant impact on tax. They also found that charges, liquidity, and investment attributes are mediating factors for investors' perception. The data were collected in 2014 and the respondents are 200. The objective of the research is To study the perception of Investors toward derivative trading, To investigate the relationship between an investor's age and his intention to trade in derivatives. The researcher used the Nonprobability sampling technique will use with the non-probability Purposive sampling method.

Y. Nagaraju conducted a study on 'investors' perceptions of derivative instruments and markets' in 2015, and respondents are 310. The study concludes that before making of investment the investor should take effective measurements and determine the factors of risk for investment decisions on particular financial instruments. The objective of this study is to examine the investor attitude and perception toward the derivative market in India. The researcher used the Nonprobability sampling technique will use with the nonprobability Purposive sampling method. The researcher was collect data only from those investors who are trading / investing in the Derivatives market.

Meenakshi Bindal, the study conducted on the derivative market has an important role to play in the economic development of a country in 2016. Changes in exchange rates, interest rates, and stock prices of different financial markets have increased the financial risk to the corporate world. Adverse changes in the macroeconomic factors have even threatened the very survival of the business world. It is, therefore, necessary to develop a set of new financial instruments known as derivatives in the Indian financial markets, to manage such risk. The objective of these instruments is to provide commitments to prices for future dates for giving protection against adverse movements in future prices, to reduce the extent of financial risks.

Kumar M. and Gautam, the study conducted on the use of a financial derivative of Indian bank holding companies in the year 2017 and sample size was 50. Broadly speaking, the banks may employ financial derivatives to follow objectives that sometimes conflict, banks may use financial derivatives for hedging purposes to lower their risk exposures, banks may use financial derivatives for speculative purposes to collect revenues and fees, which may increase bank's risk exposures We combine data from several sources, for financial derivative. data, we collected firm-level data from 2005 to 2016. The empirical analysis employs a two-stage time series regression model to examine the relationship between systematic risk and the use of financial derivatives.

KHAN S, the study was conducted on 'Derivatives markets, products, and participants: an overview' in the year 2017, and respondents were 150 sample size. The chapter provides an overview of derivatives markets, products, and participants. Derivatives are invented in response to some fundamental changes in the global financial system. They, if properly handled, should help improve the resilience of the system and bring economic benefits to the users. In this context, they are expected to grow further with financial globalization. However, past credit events exposed many weaknesses in the organization of derivatives trading. The aim is to minimize the risks associated with such trades while enjoying the benefits they bring to the financial system. An important challenge is to design new rules and regulations to mitigate the risks and to promote transparency by improving the quality and quantity of statistics on derivatives markets. The researcher used the Nonprobability sampling technique will use with the non-probability Purposive sampling method.

OBJECTIVE AND SIGNIFICANCE

The purpose of this paper is to measure the preference of investors towards derivative market. Researcher also like to identify the product choices and purposes for investing in derivative market. This study can help the portfolio manager and consultant to suggest suitable products while investing in derivative market and also provide some guidelines to them for designing their investment strategies.

DATA AND METHODOLOGY

The data were collected from the people from Surat city using structured questionnaire. The samples of 200 individual chosen for the inclusion were randomly selected. Respondents were asked to complete the variables while investment in derivative market. The questionnaire consisted of different questions like demographic information, purposes and choice of derivative products.

Statistical Analysis: Chi-square test was performed to measure the association between demographic variables with product preferences and purposes of investment in derivative market.

The study will be limited to Surat city only. For further this topic can be extended to other cities or state level or considering other factors which may not be covered in this work.

DATA ANALYSIS

Academic Qualification			Occupation		
	Frequency	Percentage		Frequency	Percentage
Under graduate	35	17.5	Service	31	15.5
Graduate	46	23.0	Business	59	29.5
Post graduate	81	40.5	Professional	65	32.5
Professional degree	38	19.0	Retired	25	12.5
Annual Income			Others	20	10
	Frequency	Percentage	Gender		
Up to Rs. 3,00,000	41	20.5		Frequency	Percentage
3,00,001 to 6,00,000	76	38.0	Male	153	76
More than 6,00,000	83	41.5	Female	47	24

The table 1 shows demographic details of respondents. It shows respondents academic qualification, occupation, Annual income and gender. There are 46 respondents are graduate whereas 81 post graduates. There are 153 male and 47 female respondents. Out of total respondents 41 whose income is up to 3,00,000, 76 having income between 3 lakhs to 6 lakhs and 83 having more than 6 lakhs annually.

Product Preferences		Purposes for investment in derivative market			
	Frequency	Percentage		Frequency	Percentage
Forward	6	03.00	Transferability of risk	42	21.00
Option	110	55.00	High Return	112	56.00
Future	79	39.50	Low investment	41	20.50
Swap	5	02.50	High liquidity	5	02.50

The table 2 indicate that most of the investors preferred option and then future while investing in derivatives market. The purpose of investing in derivative market mainly were high return and low investment.

CHI-SQUARE TEST

H0: There is no association between demographic variables and derivative product preference

H1: There is an association between demographic variables and derivative product preference

Chi-square test	Gender & Product preference	Occupation & Product preference	Education & Product preference	Annual income & Product preference
Pearson	0.019	0.460	0.316	0.944

The association between demographic variables and derivative product preference were tested using chi-square test. The value of Pearson chi-square test was 0.019 at 5% level of significance which indicated that there was association between gender and derivative product preference. The other variables like occupation, education and annual income of investors were greater than 0.05 indicates that there were no significant association with derivative product preference.

H0: There is no association between demographic variables and Purposes of investment in derivative market

H1: There is an association between demographic variables and Purposes of investment in derivative market

Chi-square test	Gender & Purposes of investment	Occupation & Purposes of investment	Education & Purposes of investment	Annual income & Purposes of investment
Pearson	0.003	0.155	0.077	0.518

The association between demographic variables and purposes of investment in derivative market were tested using chi-square test. The value of Pearson chi-square test was 0.003 at 5% level of significance which indicated that there was association between gender and purposes of investment in derivative market. The other variables like occupation, education and annual income of investors were greater than 0.05 indicates that there were no significant association with purposes of investment in derivative market.

CONCLUSION

The objective of research was to identify the preference of investors towards derivative market. It was found that future and option were two major product preference of investors while investing in derivative market. The high return and transferability of risk were found most important purposes of investment in derivative. The study was also tested using chi-square test to measure whether there were any association between demographic variables and product preference & purposes of investment. It was found that only gender having an association whereas occupation, education and annual income does not.

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