Investors Perception Towards the Derivatives an Exploratory Study

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Introduction:

Derivatives, the financial instruments that play significant role in the stock market in india and investor who invest in derivatives market , are currently gaining popularity and acceptance from the investors of all corners. The most important products in derivative market are forwards, futures and options, even though these products are highly risk oriented to investors when compared to shares, and fixed income securities.

In the indian financial market, these are marked as very high degree of volatility. Although, there is chance to partially or fully transfer price risks by locking-in asset prices. Derivatives products are not influenced the fluctuations in the underlying asset prices. However, by locking in asset prices, derivative products minimize the impact of fluctuations in asset prices on the profitability and cash flow situation of risk-averse investors. This derivative market investment is like, risk and return game and risky market .derivarive market instruments can be used to be protection of risk which is to be raised unexpected uncertainties in financial market.

Abstract

Derivative market are not new to the world, but reentered with new face into the fray. In India, derivatives are introduced at first on index and followed by securities and Derivative phase wise for the betterment of the markets and the price discovery. Aftermath of the derivatives introduction on commodities, the market of commodities equity derivatives started moving with colors and helped a lot the economy. The history of Derivative market may be new for developing countries but it is old for developing countries. The commodity market has been functioning in India with raped speed. financial equity Derivative market introduced two major stock exchanges. NSE and BSE.

Keywords :DM- Derivative market, IP- Investor perception, FI- Financial Institution.

REVIEW OF LITERATURE

R. Dixon and R.K. Bhandari (1997) said in their study that consequently derivative instruments can have a important impact on Indian financial institutions, individual investors and even national economies. Using financial derivatives to hedge against risk carries in itself a new risk was brought sharply into focus by the collapse of Barings financial instution . There is a clear call for international harmonization and its recognition by both traders and regulators. There are calls also for a new international body to be set up to ensure that finanacial derivatives and remaining an effective tool of risk management, carry a minimum risk to investors economies. Considers the expanding role of banks and securities houses in the light of their

sharp reactions to increases in interest rates and the effect their presence in the derivatives market may have on market volatility.

Patrick McAllister and John R. Mansfield (1998) stated that derivatives have been an expanding and controversial feature of the inaian financial markets since the late 1980s. They are used by a wide range of manufacturers and investors to manage risk. This paper analyses the role and potential of financial derivatives investment property portfolio management. The limitations and problems of direct investment in commercial property are briefly discussed and the main principles and types of financial derivatives are analyzed and explained. The potential of financial derivatives to mitigate many of the problems associated with direct property investment is examined.

Yoon Je Cho (1998) showed in his study that increasing turnover figures in the Indian stock exchanges from 1994-95 to 1996-97, implying that they are dominated by speculative investments, which is not unusual in emerging markets. However, trading volumes in the Indian capital market are fairly large compared to those in other emerging markets. The substantial increase in turnover may be attributed primarily to the expansion of the NSE"s trading network. But this also reflects the fact that the Indian stock market is dominated by speculative investments for short-term capital gains, rather than long-term investment.

Abdulla Yameen (2001) delivered massage, investors will need to be alert to any new development in capital market and take advantage of the Investor Education and Awareness Campaign program which to be undertaken by the Capital Market Section to acquaint of the risks and rewards of investing on the Capital market.Speech was also focused on to create a new breed of financial intermediaries, which will deal on the market for their clients. These intermediaries have to be professionals with quite advanced knowledge on stock exchange operations, techniques, law and companies valuation. Investors depend to a large extent on their professional advice when investing on the market. Furthermore, these intermediaries must be men of integrity and honesty as they would deal with clients" money Confidence of investors in these professionals is a key to the success of the capital market.

Makbul Rahim (2001) argued in his speech that the regulatory framework must provide the right environment for the development and the growth of the market. High standards of probity and professional conduct have to be maintained and reach world class standards. Integrity is very important as well confidence. The development of a proper free flow of information and disclosure helps investors to make informed investment decisions.

Research Problem:

Lack of understanding of the Indian finanacial market and lack of close link to those doing the day-to-day trading have also hindered the growth of these financial markets. Lack of understanding as to how the financial derivatives in stock markets are to be operated is the major roadblock, in the success of the futures

and options market in india. The absence of such awareness and inadequate appreciation of the character, derivatives may result in a number of investors burning their hands. There is a big need of research in the area of risk Management and its tools with the view of providing sophisticated knowledge to the derivative market investors and all the market participants and to the professionals.

Objective of the Study:

✓ To analysis and interpret investors' perception, towards derivatives markets in Shivamogga District.

Hypothesis of the Study:

✓ There is no significant relationship between the demographic factors of the investors and their perception towards the Derivative market.

Methodology of the Study

The present study is descriptive and analytical nature.

Collection of Data

The study is being conducted with the help of both Primary as well as Secondary data. The primary data for the study is collected from two stakeholders that is the investors and Agents/brokers respectively from Shivamogga district with the help of well-structured questionnaire which includes the dichotomous as well the five point Likert scale questions and also some of the open ended questions for some of the statements to avoid the biased responses and the Secondary data is collected from the various online sources which includes the J-gate, EBSCHO host data bases and the information is also collected through the derivatives market websites, journals, magazines and SEBI, NSE and BSE reports.

Sampling Method

Krejcie and Morgan test was adopted to determine the sample size of the investors with the total population of 1980 investors' (Source: Annual report of Investors in Shimoga District published in the year 2017 by Share Khan Brokerage) population in Shimoga is taken into consideration.

S=X2 NP (1-P)/d2 (N-1) + X2 P(1-P) Further the sample size was calculated by considering 95% confidence level and 5% confidence interval the sample size was determined as 322 and census sampling technique is being adopted for determining the sample size of the brokerage firms 52 brokerage (Source: Annual report of Investors in Shimoga District published in the year 2017 by Share Khan Brokerage) firms which are operating in Shimoga districts and all the firms are been taken into consideration hence the complete population of the brokerage are treated as the sample size through the census sampling method.

Hypothesis

There is no significant relationship between the demographic factors of the investors and their perception towards the Derivative market.

Table Showing the Cross tabulation between the gender classification of the investors and the investors perception towards derivatives products are complex and high-tech

Cross tabulation				
		Products Derivatives are complex and hightech financial		Total
		Agree	Strongly Agree	
Gender	Male	142	145	287
	Female	13	22	35
Total		155	167	322

Table Showing the chi-square test between the gender classification of the investors and the investors perception towards derivatives products are complex and high-tech

Chi-Square Tests					
	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	1.901[a]	1	0.168	0.21	
Likelihood Ratio	1.925	1	0.165		
Linear-by-Linear Association	1.895	1	0.169		
N of Valid Cases	322				
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 16.85.					
b. Computed only for a 2x2 table					

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the gender classification of the investors and their perception towards the derivatives products are complex and high-tech the Pearson chi-square results of 0.21 which is higher than the table value of .005 indicated that there is no significant relationship between the gender classification of the investors and their perception towards the derivatives products are complex and high-tech.

Table Showing the Cross tabulation between the gender classification of the investors and the investors perception towards derivatives are purely speculative highly leveraged

Cross tabulation				
		Instruments Derivatives are purely speculative highly leveraged		Total
		Agree	Strongly Agree	
Gender	Male	187	100	287
	Female	22	13	35
Total		209	113	322

Table Showing the chi-square test between the gender classification of the investors and the investors perception towards derivatives are purely speculative highly leveraged

Chi-Square Tests					
	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.072[a]	1	0.788	0.852	
Likelihood Ratio	0.072	1	0.789		
Linear-by-Linear Association	0.072	1	0.788		
N of Valid Cases	322				
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 12.28.					
b. Computed only for a 2x2 table					

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the gender classification of the investors and their perception towards the derivatives are purely speculative highly leveraged the Pearson chi-square results of 0.852 which is higher than the table value of .005 indicated that there is no significant relationship between the gender classification of the investors and their perception towards the derivatives are purely speculative highly leveraged.

Table Showing the Cross tabulation between the gender classification of the investors and the investors perception towards big institutions investors have a purpose for using Derivatives

Cross tababulation							
		big institutions investors have a purpose for using Derivatives					Total
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
Gender	Male	4	46	33	154	50	287
	Female	0	12	0	23	0	35
Total		4	58	33	177	50	322

Table Showing the chi-square test between the gender classification of the investors and the investors perception towards big institutions investors have a purpose for using Derivatives

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.208[a]	4	0.002
Likelihood Ratio	25.513	4	0
Linear-by-Linear Association	4.687	1	0.03
N of Valid Cases	322		
a. 3 cells (30.0%) have expected count less than 5. The minimum expected count is .43.			

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the gender classification of the investors and their perception towards the big institutions investors have a purpose for using Derivatives the Pearson chi-square results of 0.002 which is lesser than the table value of .005 indicated that there is a significant relationship between the gender classification of the investors and their perception towards the big institutions investors have a purpose for using Derivatives.

Table Showing the Cross tabulation between the gender classification of the investors and the investors perception towards Fashion Financial derivatives are simply the latest risk management

Cross tabulation							
		Fashion Financial derivatives are simply the latest risk mgmnt					Total
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
Gender	Male	178	55	10	19	25	287
	Female	12	14	0	6	3	35
Total		190	69	10	25	28	322

Table Showing the chi-square test between the gender classification of the investors and the investors perception towards big institutions investors have a purpose for using Derivatives

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.056[a]	4	0.003
Likelihood Ratio	15.649	4	0.004

Linear-by-Linear Association	3.698	1	0.054
N of Valid Cases	322		
a. 3 cells (30.0%) have expected count less than 5. The minimum expected count is 1.09.			

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the gender classification of the investors and their perception towards the big institutions investors have a purpose for using Derivatives the Pearson chi-square results of 0.002 which is lesser than the table value of .005 indicated that there is a significant relationship between the gender classification of the investors and their perception towards the big institutions investors have a purpose for using Derivatives

Table Showing the Cross tabulation between the gender classification of the investors and the investors perception towards Only risk seeking organizations investors should use Derivatives

Cross tabulation							
		Only risk seeking organizations investors should use Derivatives					Total
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
Gender	Male	19	31	210	11	16	287
	Female	0	10	22	0	3	35
Total		19	41	232	11	19	322

Table Showing the chi-square test between the gender classification of the investors and the investors perception towards Only risk seeking organizations investors should use Derivatives

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.330[a]	4	0.015
Likelihood Ratio	13.771	4	0.008
Linear-by-Linear Association	0.028	1	0.867
N of Valid Cases	322		
a. 4 cells (40.0%) have expected count less than 5. The minimum expected count is 1.20.			

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the gender classification of the investors and their perception towards Only risk seeking organizations investors should use Derivatives the Pearson chi-square results of 0.015 which is higher than the table value of .005 indicated that there is no significant relationship between the gender classification of

the investors and their perception towards the Only risk seeking organizations investors should use Derivatives.

Table Showing the Cross tabulation between the gender classification of the investors and the investors perception towards risks associated with financial derivatives are new and unknown

Cross tabulation							
		risks associated with financial derivatives are new and unknown					Total
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
Gender	Male	22	34	10	9	212	287
	Female	0	7	3	0	25	35
Total		22	41	13	9	237	322

Table Showing the chi-square test between the gender classification of the investors and the investors perception towards risks associated with financial derivatives are new and unknown

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.434[a]	4	0.115
Likelihood Ratio	10.147	4	0.038
Linear-by-Linear Association	0.001	1	0.973
N of Valid Cases	322		
a. 4 cells (40.0%) have expected count less than 5. The minimum expected count is .98.			

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the gender classification of the investors and their perception towards risks associated with financial derivatives are new and unknown the Pearson chi-square results of 0.115 which is higher than the table value of .005 indicated that there is no significant relationship between the gender classification of the investors and their perception risks associated with financial derivatives are new and unknown.

Table Showing the Cross tabulation between the gender classification of the investors and the investors perception towards Derivatives trading is an unsafe and risky

Cross tabulation		Derivatives trading is an unsafe and risky	Total
		Strongly Agree	
Gender	Male	287	287
	Female	35	35
Total		322	322

Table Showing the chi-square between the gender classification of the investors and the investors perception towards Derivatives trading is an unsafe and risky

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.434[a]	4	0.028
Likelihood Ratio	10.147	4	0.038
Linear-by-Linear Association	0.001	1	0.973
N of Valid Cases	322		
a. 4 cells (40.0%) have expected count less than 5. The minimum expected count is .98.			

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the gender classification of the investors and their perception towards Derivatives trading is an unsafe and risky the Pearson chi-square results of 0.028 which is higher than the table value of .005 indicated that there is no significant relationship between the gender classification of the investors and their perception towards Derivatives trading is an unsafe and risky.

Table Showing the Cross tabulation between the gender classification of the investors and the investors perception towards Derivatives trading increasing systematic risk

Cross tabulation		Derivatives trading increasing systematic risk			Total
		Agree	Strongly Agree	6	
Gender	Male	233	46	8	287
	Female	35	0	0	35
Total		268	46	8	322

Table Showing the chi-square between the gender classification of the investors and the investors perception towards Derivatives trading increasing systematic risk

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.912[a]	2	0.019
Likelihood Ratio	13.683	2	0.001
Linear-by-Linear Association	7.074	1	0.008
N of Valid Cases	322		
a. 1 cells (16.7%) have expected count less than 5. The minimum expected count is .87.			

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the gender classification of the investors and their perception towards Derivatives trading increasing systematic risk the Pearson chi-square results of 0.019 which is higher than the table value of .005 indicated that there is no significant relationship between the gender classification of the investors and their perception towards Derivatives trading increasing systematic risk.

Table Showing the Cross tabulation between the gender classification of the investors and the investors perception towards risk associated with derivatives regulators should be use

Cross tabulation				
		risk associated with derivatives regulators should be use		Total
		Disagree	Neutral	
Gender	Male	242	45	287
	Female	29	6	35
Total		271	51	322

Table Showing the chi-square between the gender classification of the investors and the investors perception towards risk associated with derivatives regulators should be use

Chi-Square Tests					
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.050ª	1	0.823	0.491	
Likelihood Ratio	0.049	1	0.824		
Linear-by-Linear Association	0.05	1	0.823		
N of Valid Cases	322				
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 5.54.					
b. Computed only for a 2x2 table					

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the gender classification of the investors and their perception towards risk associated with derivatives regulators should ban use the Pearson chi-square results of 0.491 which is higher than the table value of .005 indicated that there is no significant relationship between the gender classification of the investors and their perception towards risk associated with derivatives regulators should ban use.

Table Showing the Cross tabulation between the annual investment of the investors and the investors perception towards brokerage fee is very low in derivatives market

Cross tabulation				
		Brokerage fee is very low		Total
		Neutral	Agree	
What is your Total Annual Investment	Rs.50001 – 100000	32	0	32
	Above Rs.100000	236	54	290
Total		268	54	322

Table Showing the chi-square between the annual investment of the investors and the investors perception towards brokerage fee is very low in derivatives market

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.208[a]	8	0.039
Likelihood Ratio	18.686	8	0.017
Linear-by-Linear Association	0.714	1	0.398
N of Valid Cases	322		
a. 7 cells (46.7%) have expected count less than 5. The minimum expected count is .89.			

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the annual investment classification of the investors and their perception towards brokerage fee is very low in derivatives market the Pearson chi-square results of 0.039 which is higher than the table value of .005 indicated that there is no significant relationship between the annual investment classification of the investors and their perception towards brokerage fee is very low in derivatives market.

Table Showing the Cross tabulation between the age of the investors and the investors perception towards risks associated with financial derivatives are new and unknown

Cross tabulation							
		risks associated with financial derivatives are new and unknown					Total
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
Age	22 to 30	15	7	0	0	28	50
	31-40	7	34	13	9	183	246
	41 to 50	0	0	0	0	26	26
Total		22	41	13	9	237	322

Table Showing the chi-square between the age of the investors and the investors perception towards risks associated with financial derivatives are new and unknown

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	61.765[a]	8	.000
Likelihood Ratio	55.401	8	0
Linear-by-Linear Association	28.592	1	0
N of Valid Cases	322		
a. 7 cells (46.7%) have expected count less than 5. The minimum expected count is .73.			

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the age of the investors and their perception towards risks associated with financial derivatives are new and unknown the Pearson chi-square results of 0.000 which is lesser than the table value of .005 indicated that there is a significant relationship between the age of the investors and their perception towards risks associated with financial derivatives are new and unknown.

Table Showing the Cross tabulation between the age of the investors and the investors perception towards Derivatives trading increasing systematic risk

Cross tabulation					
		Derivatives trading increasing systematic risk			Total
		Agree	Strongly Agree	6	
Age	22 to 30	44	6	0	50
	31-40	205	33	8	246
	41 to 50	19	7	0	26
Total		268	46	8	322

Table Showing the chi-sqaure between the age of the investors and the investors perception towards

Derivatives trading increasing systematic risk

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.151[a]	4	0.188
Likelihood Ratio	7.406	4	0.116
Linear-by-Linear Association	2.069	1	0.15
N of Valid Cases	322		
a. 3 cells (33.3%) have expected count less than 5. The minimum expected count is .65.			

The above cross tabulation and the chi square test was executed to see is there any significant relationship between the age of the investors and their perception towards Derivatives trading increasing systematic risk the Pearson chi-square results of 0.188 which is lesser than the table value of .005 indicated that there is no significant relationship between the age of the investors and their perception towards Derivatives trading increasing systematic risk.

Summary of Findings and Conclusion.

It was found out that there was no significant relationship between the demographic factors of the investors and their perception towards the Derivative market. It was found out that there was no influence on the independent variables on the perception of the investors towards the agent/brokers. The perception of investors is changing towards derivative market in India for the last few years and with the introduction of behavioural finance the researcher would like to capture that. Risk averse investors always trying to play safe by investing in conventional products like mutual funds, insurance, government bonds and securities whereas those are willing to take risk and want to earn more returns and in lieu of that they prefer to invest in derivative market.

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