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"An Empirical Investigation on Retail Investor's perception towards derivative trading in Udaipur city"

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ABSTRACT: Purpose:- Derivative trading was introduced in India in the year 2000 on NSE and BSE. Since the launch of Derivatives securities, it has penetrated the Indian stock market and investors are using these securities for different purposes like risk management, profit enhancement, speculation, hedging, and arbitrage. There is a need to grab the attention of the investor's towards the derivative market and draw inferences from investor's behavior so that the derivative market can benefit and understand investor's preferences better. This study will give quantitative model reflecting the factors affecting the investor behavior in the derivative market with load factors which will not only help the asset management companies to frame their investment policy but also the macro policymakers to frame certain policy which will encourage investors to invest in the derivatives market. The study will not only help the asset management companies to frame their investment policy but also the macro policymakers to frame certain policy which will encourage investors to invest in the derivatives market.

Design:-The present study has surveyed by ―Structured Questionnaire targeting the top 50 investors in Udaipur City, to know the awareness and attractiveness of different derivative products.

Findings: - There is no significant effect of the educational qualification, age of investors and awareness on investor's perceptions towards derivatives.

There is significant effect of the gender, income level and occupation on investor's perceptions towards derivatives.

Research Limitation:-

- The primary data has been collected through a structured questionnaire from a sample of only 50 investors in Udaipur City, which may not reflect the opinion of the entire population.
- The Referral Sampling used for the purpose may not represent the universe and hence generalization of inference based on findings of this research may not be appropriate.
- Due to a lack of awareness about derivatives, many investors may not be responded to accurately. The study is not focused on professional investors who have the expertise and invests a big amount in the stock market. Because these professional investors are less in number and they are not easily accessible.
- There is always a sampling error. Investors 'response may be biased.
- One of the most serious limitations concerns the fact that the investors' response comes from subjective questions and there is no way to reliably assess whether their actual behavior would mimic their answers.

Originality/Value:-

It is the first study which is conducted in Udaipur City and showing all the factors which affect investor's perception.

Keywords:-derivatives, investor's perception, asset management company, professional investors

I. INTRODUCTION:-

The history of derivatives may be new for developing countries but it is old for developed countries. In 1848, a first **derivatives** exchange was created in Chicago, United States. It is the Chicago Board of Trade (CBOT), the oldest organized futures market still operating in the world. (**Venkatesha and Hiriyappa, 2017)** The most significant aspect of derivatives is risk management and not about the elimination of risk. (**Renuka, 2019)**

The term "derivatives" originated in mathematics which means a variable that has been derived from other variables. A derivatives instrument that helps to hedge the risk involved in underlying assets derives value from an underlying asset or index. **(Pandian, 2015)**

The derivative is a product whose value is to be derived from the value of one or more basic variables called bases (underlying asset, index or reference rate). The underlying asset can be equity, currency, and commodity. **(Ramana, 2007)**

Generally, Derivatives can be classified as follows:-

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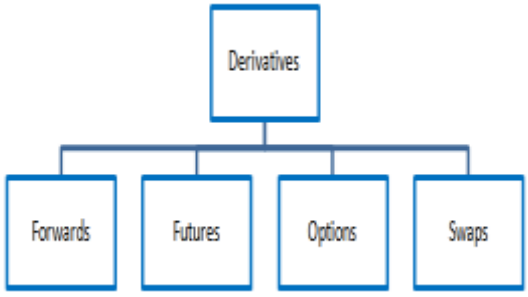

I. Forward Contract:-
The forward contract is an agreement between two parties to exchange an asset for pre specified price on a specific date in the future.
Example: - In 1-year time party A will purchase 8000 barrels of oil from party B at Rs 50 per barrel.

II. Future Contract:-
The future is similar to a forward contract.The major difference however includes: Futures contracts have standardized contract terms, Future contracts are traded on exchange rather than OTC, The future contract involves margin.

III. Option Contract:-
An option contract gives one party the right, but not the obligation, to buy or sell an underlying asset at a specific price by or at a specific date.

IV. Swap Contract:-
A swap contract is a derivative in which two counter parties exchange cash flows (known as "legs") over some time. Often one leg will be fixed payment, while the other will be floating payment.

1.1 Research Objective:-
1. The study tries to determine the preference of investors towards various considerable factors that motivates them to invest in derivatives.
2. The study also analyzes if there is any difference in the perception of male and female towards derivatives investment.
3. Is there any effect of demographic factors (educational qualification, age, and income level) on investors' perception of derivatives?

1.2 Research Hypothesis:-
Ho1: There is no significant effect of the occupation of investors on investor's perceptions towards derivatives.
Ho2: There is no significant effect of the educational qualification of investors on investor's perceptions towards derivatives.
Ho3: There is no significant effect of the age of investors on investor's perceptions towards derivatives.
Ho4: There is no significant effect of the income level of investors on investor's perceptions towards derivatives.
Ho5: There is no significant difference in male and female perceptions towards derivatives.
Ho6: There is no significant relationship between Awareness and interest in the derivative market.

1.3 Research Methodology: - The Data Collection Procedures in this section four sub heading will be discussed including the types of data used, sampling techniques, target population and sample selection and finally the measuring instrument Data Types:
a) Primary Data: Primary data involves the collection of data from the participants who are actually retail investors. The researcher herein has collected the primary data from the retail investors using the questionnaire method through Google forms.
b) Secondary Data: The secondary data had been collected from the books, journals, magazines, review articles, research papers, and websites were explored to collect secondary data.
c) Sampling Technique: The sampling is a method of collecting samples from the target population wherein the probability of getting selected in the sample is Random sampling technique by considering 61 retail investors.
d) Selection of Sample Size: The study is especially based on primary data by following snow-ball technique and collects through structured questionnaire form. Numerous styles of queries are asked from investors relating to socio-economic characteristics like their age, education, occupation, area, marital status and income. For collection of an information concerning performance of derivatives and best supply to induce recommendation, information is collected in rank form. The primary data were collects during April 2020 to May 2020.
e) Statistical tool used: The tool used is chi square, cross tabulation and Cornbach's-alpha reliability test.

II. LITERATURE REVIEW:-

Research gap I found out in different research papers is that there is the scope of studying other parts of the country and analyzing other variables that can influence investor's decisions, to gain better insight into the paper **(Tripathi, 2014). (Rahman and Khyser Mohd, 2017)** has only considered demographic factors so, other factors can also be taken into account and the

research can be done on it. **(Majeeb Pasha, 2013)** the main focus was only on futures and options, so further researchers need to concentrate on swaps and forwards.

2.1 Educational Qualification

(Tripathi, 2014) the study was only limited to Delhi NCR and there 75% of investors are aware of derivatives out of which 76% invest in options. The main reason for not investing in derivatives is a lack of knowledge and complex understanding. (**Shukla and Vaishnav, 2019)** also concluded that most of the investors are not aware of derivatives and they feel like it is very difficult to understand. Only 54% invest in futures and options and out of which 32% of investors use expert advice. **(Ansari and Ubeja, 2015)** stated that investors, who invest high are very experienced and knowledgeable about the derivative market, their education plays a very important role during the process. (**Prasad, 2016)** concluded that 67% of the total respondents are having qualification of Graduation and above and 33% of respondents are having educational qualification of less than graduation.

2.2 Age of Investors

(Rahman and Mohd, 2017) has used chi-square for analyzing and concluded that investors aged between 31 - 40 are more concerned about risk and they prefer long-term investment. (**Sumathy, 2014)** also stated that most of the respondents belong to the age group 30-35. **(Kathirvel and Mekala, 2011)** found that 39 percent of the respondents belong to 30 year's age group. It is also found that 70 percent of the respondents are married, while 30 percent of the respondents are Unmarried.

2.3 Income level of Investors

(Cirappa and Tejashwini, 2020) took 30 respondents and as per income-wise distribution 02 respondents (06.67%) have less than Rs. 2, 00,000 per annum income, 10 respondents (33.33%) lie in income group more than Rs. 2, 00,000 but less than Rs. 5, 00,000 per annum, 08 respondents (26.67%) have more than Rs. 5, 00,000 but less than Rs. 10, 00,000 per annum and 10 respondents (33.33%) have more than the income of Rs. 10, 00,000 per annum. (**Venkatesha and Hiriyappa, 2017)** collected from 150respondents via a questionnaire survey in Shivamogga city found that above 60% of respondents save 11 to 15% of their income for investment and only 1.33% of respondents save more than 25% of their income for investments.

2.4 Gender

(Kukreja,2012) concludes that 52.60% of males consider themselves to be conservative investors and 47.40% of females are conservative investors. (**Ravichandran, 2008)** did research in Chennai City and out of 100 respondents 65% are male. (**Velmurugan and Selvam, 2015)** did research on 100 investors in Vellore city and concluded that 55.1% of the respondents are male and 44.9% of the respondents are female respectively. **(Kashyap and Bansal, 2014)** the study revealed that the female gender is averse and invests a small amount of their income in low-risk investment avenues

Whereas the male gender is risk seekers invest a large part of their income in diversifying investment avenues involving high risk. The comparative analysis finds that the male respondents were more interested in real estate and the female respondents' active towards Bank fixed deposits.

2.5 Awareness

(Bhatt, 2014) took 100 retail investors from Navsari city and concluded that 34% of investors invest in derivative as they are aware of the derivatives. 24% of investors invest in derivatives based on guidance from their financial advisors. 19% of investors' decision is based on the broker's advice. 13%, 8%, and 2% respondent's decision is affected by media, friends, and relative's advice and expert advice. **(Sarathkumar and Dhandhayuthapani, 2016)** conducted research in Trichy City on 200 respondents and concluded that most of the respondents that are 35% are influenced by friends & relations followed by share brokers, 25.5% said that News Papers help them to decrease their risk. And 32% invest in the stock market followed by stock market choice. (**Velmurugan and Selvam, 2015)** stated in their paper that the majority of 65.3% of the respondents will take investment decisions on their own whereas 34.7% of the respondents will depend upon others to take an investment decision. The major source of income for investment by the investors is from friends and relatives.

2.6 Occupation

(Sornaganesh and Helina, 2018) in their study concluded that 36% of the respondents are doing business, 24% of the respondents are govt. employees, 16%of the respondents are professionals, 14% of the respondents are private employees and the remaining 10% of the respondents are housewives.

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2.7 Other Considerable Factors

(Renuka, 2019) in her research paper named "Investor's Perception towards Investments in Derivatives," she mainly focused on why investors enter into different types of derivatives. She took five different investment avenues into consideration that is a risk, return, safety, tax benefits, future needs, and found that investors enter into forward contracts for returns, future contracts for eliminating risk and for safety, option contract for future needs, and swaps also for future needs. **(Arunsankar, 2020)** researched the Tirunelveli district and found that investors have the biggest preference for safety. **(Majeeb Pasha, 2013)** explored misconceptions such as derivatives are new, complex, high-tech financial products- Risks associated with financial derivatives are new and unknown derivatives trading are unsafe and risky. **(Manrai, 2014)** stated that Risk-averse investors always try to play safe by investing in mutual funds, insurance, government bonds, and securities whereas risk-takers want to earn more returns, and instead of that they prefer to invest in the derivatives market.

III. DATA ANALYSIS:-

The investor's demographic factor i.e. Gender, **Educational Qualification**, Occupation, Age of Investors, Income level and Awareness in Derivative Market is examined and measured with the help of chi squared test and cross tabulation with the attributes of the derivative investment.

These factors are classified as- the Gender into Male and Female; Educational qualification into Graduation, Post Graduation, Professional Qualification and Others; Occupation into Government

Employee, Private Firm Employee, Professional, Business Man, Student, Others (Retired, Housewife, etc); Age of Investors has been bifurcated in 4 age groups i.e. 18-24, 25- 32, 33-40 and Above 40; Income level into Below 4 lakh, Between 4 lakh to 8 lakh, Between 8 lakh to 11 lakh
and Above 11 lakh.; Awareness into Self Awareness, Friends or Relatives, Financial Advisor, Media, Broker's Advice.
The investment attributes are selected as — Percentage (%) of Income invest in Derivatives

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Table 1: Cross-tab

Cross tabulation						
Particulars			**Percentage of Income invest in Derivatives**			**Total**
			Below 10%	**10%-20%**	**20%-30%**	
Gender	**Male**	**Count**	9	23	7	39
		% within Gender	23.1%	59.0%	17.9%	100.0%
	Female	**Count**	5	8	9	22
		% within Gender	22.7%	36.4%	40.9%	100.0%
Educational Qualification	**Graduation**	**Count**	2	3	3	8
		% within Qualification	25.0%	37.5%	37.5%	100.0%
	Post Graduation	**Count**	9	13	4	26
		% within Qualification	34.6%	50.0%	15.4%	100.0%
	Professional Qualification	**Count**	3	13	6	22
		% within Qualification	13.6%	59.1%	27.3%	100.0%
	Others	**Count**	0	2	3	5
		% within Qualification	0.0%	40.0%	60.0%	100.0%

Occupation	**Government Employee**	**Count**	1	2	2	5
		% within Occupation	20.0%	40.0%	40.0%	100.0%
	Private Firm Employee	**Count**	2	7	5	14
		% within Occupation	14.3%	50.0%	35.7%	100.0%
	Professional	**Count**	4	7	4	15
		% within Occupation	26.7%	46.7%	26.7%	100.0%
	Business Man	**Count**	5	13	4	22
		% within Occupation	22.7%	59.1%	18.2%	100.0%
	Others (Retired, Housewife, etc.)	**Count**	2	2	0	4
		% within Occupation	50.0%	50.0%	0.0%	100.0%
Age of Investors	**18-24**	**Count**	2	6	3	11
		% within AGE GROUP	18.2%	54.5%	27.3%	100.0%
	25-32	**Count**	5	13	5	23
		% within AGE GROUP	21.7%	56.5%	21.7%	100.0%
	33-40	**Count**	7	10	7	24
		% within AGE GROUP	29.2%	41.7%	29.2%	100.0%
	Above 40	**Count**	0	2	1	3
		% within AGE GROUP	0.0%	66.7%	33.3%	100.0%
Income Level	**below 4 lakh**	**Count**	1	2	0	3
		% within Income Level	33.3%	66.7%	0.0%	100.0%
	Between 4 lakh to 8 lakh	**Count**	5	14	3	22
		% within Income Level	22.7%	63.6%	13.6%	100.0%
	Between 8 lakh to 11 lakh	**Count**	8	13	9	30
		% within Income Level	26.7%	43.3%	30.0%	100.0%
	Above 11 lakh	**Count**	0	2	4	6
		% within Income Level	0.0%	33.3%	66.7%	100.0%
Awareness	**Self Awareness**	**Count**	1	2	1	4
		% within Awareness	25.0%	50.0%	25.0%	100.0%
	Friends or Relative	**Count**	1	5	3	9
		% within Awareness	11.1%	55.6%	33.3%	100.0%

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	s Advice					
	Financial Advisor	**Count**	8	21	11	40
		% within Awareness	20.0%	52.5%	27.5%	100.0%
	Media	**Count**	3	1	1	5
		% within Awareness	60.0%	20.0%	20.0%	100.0%
	Broker's Advice	**Count**	1	2	0	3
		% within Awareness	33.3%	66.7%	0.0%	100.0%

Source: Author's Note

Interpretation: - Cross tabulations are **data** tables that present the results of the entire group of respondents as well as results from sub-groups of survey respondents. **Cross** tabulations enable to examine relationships within the **data** when analyzing total survey responses. Count shows the exact number of respondents.

Table 2: Multiple Regression test

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.704	.496	.161	.64215

Multiple Regression					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.158	.602		1.923	.060
Awareness	-.075	.103	-.089	-.724	.472
Income level	.307	.130	.322	2.363	.022
Occupation	-.175	.074	-.309	-2.359	.022
Educational Qualification	.118	.112	.139	1.053	.297
Age Group	-.014	.111	-.017	-.130	.897
Gender	.333	.180	.231	1.845	.041

Source: Author's Note

Interpretation: - If $p \leq 0.05$, the test is significant; If $p > 0.05$, the test is not significant.
R^2 = 0.50; taken as a set, the Predictors (Independent variable) account for 50% of the variance in Criterion Variable (Dependent Variable)

Cornbach's-alpha testing is used for testing the reliability of variables:

Table 3: Cornbach's-alpha testing

Reliability Statistics		
Cronbach's Alpha	**N of Items**	
0.806	7	
Item Statistics		
	Mean	**Std. Deviation**

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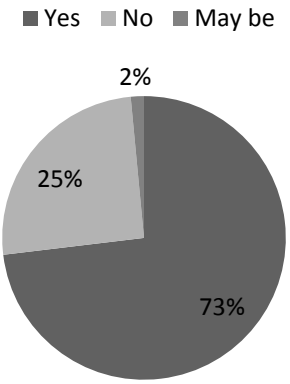
Stock Market Movement	2.9508	0.99039
Risk Diversification	2.9508	1.25733
Safety	3.1639	1.31884
Liquidity	2.9836	1.23142
Return	3.1148	1.05037
Past Performance	2.7213	0.95098
Expected Future Growth	2.6393	1.00055

Source: Author's Note

Interpretation: - The cornbach's alpha between 0.8>= α >= 0.7 is acceptable, so, the reliability of factors in the study comes out to be 0.806, so the variables are said to be reliable for taking investment decision.



Interpretation: - The pie chart shows about percentage of respondents who want to enhance their knowledge in derivatives.

IV. FINDINGS OF THE STUDY

- From the study I found that there is no one who invests above 30% of income in derivatives.
- Out of 61 respondents, 39 are male and 22 are females. Out of which 23 male and 8 females mostly invest 10% to 20% of their income. The regression test to study the significant effect of gender of investors on investors perception towards derivatives give the compounded value of p as 0.041 which is lesser than 0.05, thus null hypothesis Ho5 is rejected hence there is significant difference in male and female perceptions towards derivatives.
- Most of the respondents are post graduates and have professional qualification i.e. 26 and 22 respectively and mostly invest 10 to 20% of their income. The regression test to study the significant effect of educational qualification gives the compounded value of p as 0.297 which is quite higher than 0.05, thus null hypothesis Ho2 is accepted hence there is no significant effect of educational qualification on investor's perception towards derivatives.
- Most of the respondents in Udaipur city are businessman which is 22 and they investment 10% to 12% of their income.

The regression test for occupation gives the compounded value of p as 0.022 which is lesser than 0.05, thus null hypothesis Ho1 is rejected hence there is significant effect of the occupation of investors on investor's perceptions towards derivatives.

- Most of the respondents are having an income level of 8 lakh to 11 lakh i.e. 30. The regression test study of income level gives the compound value of p as 0,022 which is quite lesser than 0.05, thus null hypothesis is rejected hence there is significant effect of the income level of investors on investor's perceptions towards derivatives.
- Most of the investors are of the age group 25 to 40 that is in total 47. The regression test study gives the compound value of p as 0.897 which is quite higher than 0.05, thus null hypothesis is accepted hence there is no significant effect of the income level of investors on investor's perceptions towards derivatives.
- Most of the respondents (40 respondents) take the help of financial advisor to invest in derivatives. The regression test study of awareness gives the compounded value of p as 0.472 which is quite higher than 0.05, thus null hypothesis is accepted hence there is no significant relationship between Awareness and interest in the derivative market.
- It can be seen in the above table that Safety is the prime reason behind investing in Derivative having highest rank of 3.1639 after that investor also considers Return, Liquidity, Risk Diversification while investing in derivative having mean of 3.1148, 2.9836, and 2.9508 respectively.
- In the study 73% says that Yes they want to

enhance their knowledge in derivatives and 25% says No.

V. SUGGESTIONS

- It is found that the investors are investing up to 10% of their income on various investments and also they said that the market risk and the credit risk are the two main parameters they look in to before investing. The Institutions should develop policies which are of less

  Risk and the details of the institution should be briefly explained to the investors.
- Most of them felt that they want to reduce their market risk and they also said that they follow the ideas given by the financial advisors and tips given in the news paper to reduce their risk. The institutions should give information about their policies to these groups by which it can reach the investors in a positive way.
- Also friends and relatives and brokers are the most influential persons to pull the investors in the market. So the Institutions should develop some referral programs and rewards for referrals, so that existing investors can actively bring in more number of investors. Also brokers should be duly acknowledged.
- From the demographic factors it is found most of the investors are of age 31-40 and are mostly businessman and working executives, so the institutions should take these set of group into consideration and develop marketing activities and attract them to invest in capital markets**.**
- Retail investor needs to get educate themselves about different products available in the derivatives market and institutions can give training session for investors so that they can invest rationally.
- Institutions need to take into account the motivating factors i.e., expectations, comfort ability, low brokerage, worldwide demand for spinoff instruments, less volatility, investors participation, earnings, index & sensex, profitableness, demand of scrips, condition of the country, Government policies, market potential and trends in foreign market, etc.

VI. CONCLUSION

The above study was done on derivative market because it is a fast growing market in India. The contribution of financial derivatives to the Indian financial system had been significant. Investing in stock markets is a major challenge ever for individuals. Derivatives act as a tool for reducing the risk in stock markets for getting the best results out of it. The investors should be aware of the various hedging, arbitraging and speculation strategies that can be used for reducing their risk. To reduce risk and increase profits there should be awareness about the various uses of derivatives. The stock market is subjected to high risk, by using derivatives the loss can be minimized to an extent.

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Appendix:-
Questionnaire:-
Perception of Investor towards Derivatives
I am doing a study on Investor's Perception towards Derivatives in your city. Applicable only if you invest in Derivatives.
* Required

1. Your Name *

_____

2. Email Id

_____

3. Age Group (in years) *

Mark only one oval.

- ◯ 18-24
- ◯ 25-32
- ◯ 33-40
- ◯ Above 40

4. Gender *

Mark only one oval.

- ◯ Male
- ◯ Female

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5. Educational Qualification *

Mark only one oval.

- ◯ HSC
- ◯ Graduation
- ◯ Post Graduation
- ◯ Professional Qualification
- ◯ Others

6. Occupation *

Check all that apply.

- ☐ Government Employee
- ☐ Private Firm Employee
- ☐ Professional
- ☐ Business Man
- ☐ Student
- ☐ Others (Retired, Housewife, etc.)

7. Annual Income (in rupees) *

Mark only one oval.

- ◯ below 4 lakh
- ◯ Between 4 lakh to 8 lakh
- ◯ Between 8 lakh to 11 lakh
- ◯ Above 11 lakh

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8. Percentage of Income you Invest in Derivatives *

Mark only one oval.

- ◯ Below 10%
- ◯ 10%-20%
- ◯ 20%-30%
- ◯ Above 30%

9. Your understanding of the products in Derivatives *

Mark only one oval.

	1	2	3	4	5	
Very Low	◯	◯	◯	◯	◯	Very High

10. What influences you to invest in Derivatives? *

Check all that apply.

- ☐ Self Awareness
- ☐ Friends or Relatives Advice
- ☐ Financial Advisor
- ☐ Media
- ☐ Broker's Advice

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11. While investing in Derivatives, which factor is important for you? *

Mark only one oval per row.

	Not important	Slightly important	Fairly important	Important	Very important
Risk Diversification					
Safety					
Liquidity					
Return					
Past Performance					
Expected Future Growth					

12. Would you like to enhance your knowledge of Derivatives? *

Mark only one oval.

- Yes
- No
- Maybe

13. Are you satisfied with Derivatives Trading? *

Mark only one oval.

	1	2	3	4	5	
Extremely Unsatisfied						Extremely Satisfied