

INVESTORS AWARENESS TOWARDS DERIVATIVE MARKETS

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ABSTRACT: Derivatives are financial instruments whose payoffs derive from more primitive financial variables such as stock price, commodity price, index level, interest rate or an exchange rate. Derivatives allow individuals and companies to hedge risks. This means that they make it more likely that risks are borne by those best able to bear them. This makes it possible for individuals and companies to take on more risky projects - with higher promised returns - and hence create more wealth by hedging those risks that can be hedged. This paper investigates the awareness of investors towards derivatives markets in NCR with respect to some demographic factors. The study focus on investors' attitude in their investment practices. We attempt to identify and analyze the key factors that hinder the awareness of derivatives among investors. The data were collected from 100 respondents via a questionnaire survey. Chi square analysis was employed to analyze the data, and some interesting findings were obtained. This study reveals that most of the respondents are aware of derivatives.

KEYWORDS: Derivative market ,investor awareness

INTRODUCTION

A derivative security is a security whose value depends on the value of together more basic underlying variable. These are also known as contingent claims. Derivatives securities have been very successful in innovation in capital markets. 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, financial markets are markets by a very high degree of volatility. Through the use of derivative products, it is possible to partially or fully transfer price risks by locking – in asset prices. As instruments of risk management these generally don't influence 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 investor. Derivatives are risk management instruments which derives their value from an underlying asset. Underlying asset can be Bullion, Index, Share, Currency, Bonds, Interest, etc.

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Understanding the word itself, Derivatives is a key to mastery of the topic. The word originates in mathematics and refers to a variable, which has been derived from another variable. For example, a measure of weight in pound could be derived from a measure of weight in kilograms by multiplying by two.

LITERATURE REVIEW:

For the above stated objectives, a detailed review of literature has been done and the information collected and utilized for the research works have been presented below;

1. **M. Sathish, K. J. Naveen and V. Jeevanantham (2011) contemplated** in the alternatives accessible to speculators are unique and the components persuading the financial specialists to contribute are represented by their financial. They contended that as opposed to contributing specifically, the speculators especially, little financial specialists may go for backhanded venture since they may not be in a position to embrace crucial and specialized examination before they choose about their venture choices.
2. **Bose, Suchismita** led explore on "The Indian Derivatives Market Revisited" in the year 2006. They found that Derivatives items give certain essential financial advantages, for example, hazard administration or redistribution of hazard far from chance disinclined speculators towards those all the more eager and ready to hold up under hazard. Subsidiaries additionally help value disclosure, i.e. the way toward deciding the value level for any benefit in light of free market activity.
3. **S. Saravanakumar, S. Gunasekaran and R. Aarthy (2011)** demonstrated the rise in capital showcase enables the financial specialists to collect nice looking return in their speculations, yet informal investor in securities exchange hard to exploit in bullish and bearish economic situations by holding long or short positions. Presently the subsidiary instruments offer them to fence against the unfriendly conditions in the share trading system. They contended that auxiliary market is the most favored than essential market and money showcase is the most favored market than subsidiaries advertise in view of high hazard when subordinates advertise is favored than money showcase for higher return.
4. **Dheeraj Mishra, R Kannan and Sangeeta D Mishra (2006)**, endeavored to discover the spot - future equality relationship if there should be an occurrence of list prospects in the Indian securities exchange. NSE Nifty has been picked as basic

resource. It additionally goes for investigating distinctive elements in charge of the infringement of spot-future equality relationship. It was discovered that there exists a hypothetical connection between spot, rates and other important factors as profit yield, development and so forth the paper likewise went for seeing if there exists an arbitrage benefit because of infringement of spot future. It was discovered that arbitrage benefits are higher for far month future contracts than for close month future contracts. Arbitrage benefits are more for underestimated future markets than exaggerated future markets.

OBJECTIVE OF THE STUDY

- To examine the operations of derivative market.
- To examine the investors awareness towards derivative market with respect to demographic factor.
- To examine the preference of the investors in various derivative products with respect to occupation.
- To suggest or recommend some necessary steps that help in improving of the investors.

RESEARCH METHODOLOGY

1) Research Design

I have taken the descriptive research design which includes naturalistic observation and survey.

2) Sampling Technique

Proportionate stratified random sampling techniques with respect to some sector ie agricultural, salaried class, business people , students and other.

3) Sample size and Area

The sample size of 100 people is chosen from the NCR.

4) Data collection tools

The data were analyzed by means percentage analysis charts, diagrams and various other statistical tools, chi square test and analysis of variance also used.

5) Data collection sources

The data is collected from the various sources .

Primary sources: data was collected by using the questionnaire and personal contract approach.

Secondary sources: the data was collected by means of books, journal, websites & magazines.

DATA ANALYSIS AND INTERPRETATION

Hypothesis: H0: There is no significant relationship between gender and trading in derivative market.

H1: There is a significant relationship between gender and trading in derivative market.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Gender: * Are you trading in derivative market?	100	100.0%	0	.0%	100	100.0%

Gender: * Are you trading in derivative market? Cross tabulation

		Are you trading in derivative market?		Total
		1	2	
Gender: 0	Count	34	26	60
	% within Gender:	56.7%	43.3%	100.0%
	% within Are you trading in derivative market?	57.6%	63.4%	60.0%
	% of Total	34.0%	26.0%	60.0%
1	Count	25	15	40
	% within Gender:	62.5%	37.5%	100.0%

	% within Are you trading in derivative market?	42.4%	36.6%	40.0%
	% of Total	25.0%	15.0%	40.0%
Total	Count	59	41	100
	% within Gender:	59.0%	41.0%	100.0%
	% within Are you trading in derivative market?	100.0%	100.0%	100.0%
	% of Total	59.0%	41.0%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.338 ^a	1	.561		
Continuity Correction ^b	.140	1	.709		
Likelihood Ratio	.339	1	.561		
Fisher's Exact Test				.679	.355
Linear-by-Linear Association	.334	1	.563		
N of Valid Cases	100				

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 16.40.

b. Computed only for a 2x2 table

Symmetric Measures

	Value	Approx. Sig.
Nominal by Nominal Phi	-.058	.561
Cramer's V	.058	.561
N of Valid Cases	100	

INTERPRETATION

Null hypothesis is rejected in this case . so there is no significant relationship between gender and trading in derivative market. Hence, gender is insignificant factor in trading in derivative market.

Hypothesis 2 :

H0: There is no significant relationship between occupation and awareness in derivative market.

H1: There is a significant relationship between occupation and awareness in derivative market.

Crosstab

		Are you aware of all the derivative products offered by the derivative market?		Total
		1	2	
Occupation: 1	Count	12	10	22
	% within Occupation:	54.5%	45.5%	100.0%
	% within Are you aware of all the derivative products offered by the derivative market?	20.7%	24.4%	22.2%
	% of Total	12.1%	10.1%	22.2%
2	Count	23	8	31
	% within Occupation:	74.2%	25.8%	100.0%
	% within Are you aware of all the derivative products offered by the derivative market?	39.7%	19.5%	31.3%
	% of Total	23.2%	8.1%	31.3%
3	Count	5	6	11

	% within Occupation:	45.5%	54.5%	100.0%
	% within Are you aware of all the derivative products offered by the derivative market?	8.6%	14.6%	11.1%
	% of Total	5.1%	6.1%	11.1%
4	Count	18	17	35
	% within Occupation:	51.4%	48.6%	100.0%
	% within Are you aware of all the derivative products offered by the derivative market?	31.0%	41.5%	35.4%
	% of Total	18.2%	17.2%	35.4%
Total	Count	58	41	99
	% within Occupation:	58.6%	41.4%	100.0%
	% within Are you aware of all the derivative products offered by the derivative market?	100.0%	100.0%	100.0%
	% of Total	58.6%	41.4%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.781 ^a	3	.189
Likelihood Ratio	4.940	3	.176

Linear-by-Linear Association	.917	1	.338
N of Valid Cases	99		

a. 1 cells (12.5%) have expected count less than 5. The minimum expected count is 4.56.

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	.220	.189
	Cramer's V	.220	.189
N of Valid Cases		99	

Interpretation

Table value is less than computed value hence null hypothesis will be rejected. So there is a significant relation between the occupation and awareness of derivative market.

CONCLUSION

Investments are important for the wellbeing of individuals as well as for country's economic development. As the investments in capital market are subject to high risk, the investors have to be familiarized with the various alternative investments available in the capital market and the risks associated with them. The derivatives market has seen the highest growth among all financial market segments in recent years. The study reveals that most of the people are aware of the derivative market in NCR and various derivative product offered by this market. From chi square test I come to find that gender is insignificant factor in trading in derivative market. There is a significant relation between the occupation and awareness of derivative market.

Recommendation and suggestion

The study is limited to Ghaziabad district with a sample size of 100 respondents only. It has conducted only among NCR people. Future research need to explore and analyze the other variables that can influence investor's decision, so as to gain better insight and also concentrate on higher income group like college faculties, gazetted officers so all. Only few people are investing in Derivatives market as shown above. So the stock marketers have to add much more efforts to attract and convince its customer to invest in Derivative Market.

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