

A Study on Investors Perception Towards Futures Derivative

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Abstract: The history of derivatives may be new for developing countries but it is old for developed countries. The first derivatives as “futures” contracts were introduced in the Yodoya rice market in Osaka, Japan around 1960. The commodity derivatives market has been functioning in India since nineteenth century with organized trading in cotton. Exchange traded financial derivatives were introduced in India in 2000 at two major stock exchanges NSE and BSE. The emergence of the marketplace for derivatives product, most notably forwards, futures and choices, are often half-track back to the temperament of risk-averse economic agents to protect themselves against uncertainties arising out of fluctuations in asset prices. By their terribly nature, the money markets area unit marked by a really high degree of volatility. Through the employment of spinoff product, it's potential to part or absolutely transfer worth risks by locking-in plus costs. As instruments of risk management, these usually don't influence the fluctuations within the underlying plus costs. However, by locking-in asset prices, derivative product minimizes the impact of fluctuations in asset prices on the profitability and cash flow situation of risk- adverse investors. Derivatives area unit risk management instruments, that derive their worth from associate degree underlying plus. The underlying assets in derivative are often bullion, index, share, bonds, currency, interest, & commodities sometime etc. Banks, Securities firms, companies and investors hedge risks, to gain access to cheaper money and to make high profit, by the use of derivatives technique. Derivatives area unit seemingly to grow even at a quicker rate in future.

Keywords: Derivatives status, DM- Derivative market, DP- Derivative product.

1. Introduction

A derivative is a financial tool which derives its importance from the value of underlying entities such as an Asset Equities, debt, currencies, index or interest rate & commodities. A series of modifications in the financial markets paved way for the improvement of exchange – traded derivatives by the L.C Gupta committee, set up by the securities and exchange, board of India recommended appeared introduction of derivatives tools with bi-level. Various types of risks, interest rate risk, foreign exchange risk, Inflation risk change in norms etc., & due to of such type, risks have become major issue for market players and business houses both nationally & internationally.

In money market, the profit/loss of the capitalist depends on the market value of the underlying quality. The investor may incur huge profit or he may incur huge loss depending upon the

kind and may minimize risk even by entering into contractual agreement. But in derivatives phase the capitalist enjoys vast profits with restricted draw back. In a shell, the study throws a light-weight on the derivatives market.

A. Types of derivatives

Different types of derivatives instruments are forwards, future, option and swaps.

1) Forwards

A forward contract is a customized contract between two parties, entities, institutions where settlement takes place on a specific date in the future at today's pre-agreed price irrespective of any change on maturity period. This is an agreement between two parties to buy or sell an asset at a specified point of time in the future. In case of a forward contract the price which is paid or received by the parties is decided at the time of entering into the contract. A forward contract is listed within the over-the-counter market—usually between two establishment, financial organization, or individuals or between a money institution and one amongst its shoppers. Forward contracts on foreign exchange are very popular example in forward contracts.

2) Futures

Futures are one of the important financial instruments in derivatives market. A futures contract is an agreement between the two parties to buy or sell an asset at a certain time in the future for a certain price. Futures contract are traded on the exchanges. Futures contracts give the holder an opportunity to buy or sell the underlying at a pre-specified price sometime in the future. They come in standardized type with fastened expiration time, contract size and worth.

3) Options

An option is a financial derivative contract that provides a party the right to buy or sell an underlying asset at a fixed price by a certain time in the future. The party holding the right is known as the option buyer; the party granting the right is known as the option seller. There are two types options: one is calls option and second is puts option.

4) SWAPS

SWAPS are one type of financial instruments in derivatives market. The term SWAPS refers to the private agreements between two parties to exchange cash flows in the future according to a prearranged formula. SWAPS are traded in Over

the Counter Market. Investopedia explains SWAP: If firms in separate countries have comparative advantages on interest rates, then a swap could benefit both firms.

2. Literature review

Bhatt. N Dr. Babraju conducted study on —Perception of Investor towards Derivatives as On Investment Avenue in the year 2014. The derivatives are risk management tool that support in effective management of risk by various stockholders. Derivatives provide a chance to transfer risk from the one who wish to avoid it: to one who wish to agree it. India's experience with the introduction of the equity derivatives market has been really encouraging and successful. The derivatives turnover on the NSE has surpassed the equity market turnover.

Dr. Kamleshgahakar: Msd.Meetu conducted research on a derivatives market in India: evolution, trading in the year 2013. The Indian derivative market has become a multi-trillion dollar markets over the years. Marked with the ability to partially and fully transfer the risk by securing in underlying, assets prices, derivatives are gaining popularity among the investors. Since the economic reforms of 1991 most efforts are created to encourage the investors' confidence by creating the mercantilism method additional users friendly. Still, there are specific issues in this market. So the present paper is to attempt to study the evolution of the Indian derivatives market. Trading instrument in its various products and the future prospects of the Indian derivatives market.

Bose, Sachismitha conducted research on -The Indian derivatives market revisited in the year 2006. They found that derivatives product give sure vital economic edges like risk management, or redistribution of risk away from risk averse investors towards those more willing and able to bear risk. Derivatives also help price discovery. i.e. the process of determinant the value level for any quality supported provide and demand. These functions of derivatives facilitate in economical capital allocation within the economy: at a similar time their live additionally poses a threat to the soundness of the monetary sector and the overall economy.

Naresh Gopal, University of Madras, —Views of The Market Participants On Trading, Regulation in The Derivatives Market. Indian institute of capital markets ninth capital markets conference paper, January 25, 2006. The perceived growth of the derivatives market, particularly futures and options and the risks acierage to the financial sector, continue to stimulate Therefore, this article critically examines the views of market participants on the present restrictive problems in mercantilism spinoff securities in capital of India market conditions for future derivative

Pericli and Koutmos carried analysis over the impact of the US S&P 500 index futures on spot market volatility. Their results showed that index futures did not have an escalating effect on spot market volatility. Pierluigi and Laura (2002) reported a decrease in the volatility of the underlying market on

Italian Stock Market after the introduction of derivatives.

Shenbagraman studied & reviewed the role of some non-price variables such as open interests, trading volume and other factors, in the stock option market for determining the price of underlying shares in cash market. The study covered stock option contracts for four months from Nov. 2002 to Feb. 2003 consisting 77 trading days. The study concluded that net open interest of stock option is one of the significant variables in determining future spot price of underlying share. The results clearly indicated that open interest based predictors are statistically more significant than volume based predictors in Indian context.

A. Statements of problem

The global liberation and integration of economic markets have created new investment opportunities, that successively need the event of recent instruments that ar a lot of economical to subsume hyperbolic risks. The most of desired instruments that allow market participants to manage risk in the modern securities trading are derivative instruments. The main logic behind commercialism is that derivatives scale back risk by providing further channels to speculate with lower commercialism value and it facilitates the investors to increase their settlement through the future constructs. They provide extra liquidity in stock market. In India, exchange traded financial derivatives were introduced in the year 2000.

B. Objectives of study

- To analyze the perception of investors towards investment in derivative instrument and market.
- To know different types of financial derivatives.
- To study the awareness about derivative market.
- To see the trend of investment in derivative.
- To analyze whether gender parity affect the significance level of satisfaction.
- To examine the reasons considered for trading in Futures derivatives.
- To assess the level of financial satisfaction from derivative trading.
- To identify the problems faced by the investors in Futures

C. Research methodology

Primary data and secondary data are the sole discretion for study of research. This primary data is gathered from investors in stock market. Secondary data are collected from journals articles and websites. This primary data is arranging for questionnaire method the subject of the study. The data collected was analyzed by using sample statistical technologies like percentages and paragraphs. This study is limited to Jaipur city and it is subject to the views expressed by the respondents. Data has been collected from 175 respondents of the locality.

D. Limitations of the study

- i. Due to lack of awareness about derivatives, many

investors may not be responded accurately. The study is not focused on professional investors who have expertise and invests big amount in stock market. Because these professional investors are less in number and they are not easily accessible.

- ii. There is always sampling error. Investors response may be biased. And the study reflects only D-mat a/c holders view not all the investors in general.
- iii. One of the most serious limitations concerns the fact that the investors response is absolutely comes from subjective question and there is no way to reliably assess whether their actual behavior would mimic their answers.
- iv. Study is restricted for a time span of 2 months
- v. The data collection using the questionnaire method was time consuming and cumbersome.

E. Data analysis and interpretation

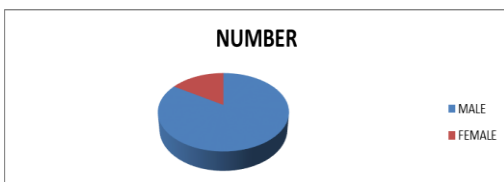
The first stage examined the descriptive statistics of the measurement items and assessed the reliability and validity of the measure applied in this study. The second stage tested the proposed research model and this involves assessing the contributions and significance of the manifest variables path coefficients. Descriptive statistics were used to describe and summarize the properties of the mass of data collected from the respondents. Parametric statistics like independent sample Z test and the one-way analysis of variance were used for comparison of the factors considered between different level of the demographic variables. A level of 0.05 was established a priori for determining statistical significance.

3. Application of test

A. Gender wise classification of investors

Table 1
 Gender wise classification of investors

Gender	Responses	Percent
Male	147	84.0
Female	28	16.0
Total	175	100



Interpretation: Above table indicate that 84% are the male respondent who invest in derivative while the remaining are female

Hypothesis testing:

- H0a: There is no significant difference in satisfaction level of male and female investors.
- H1a: There is significant difference in satisfaction level of male and female investors.

Variable	Gender	N	Mean	Std. Deviation
Level of satisfaction	Male	147	28.40	4.43
	Female	28	26.86	5.54

An independent sample Z test are often used to compare the satisfaction level of variables for two different groups of participants, that is, male and female investors. Hence a Z test was conducted, and the results were shown in

P- VALUE- 0.165137

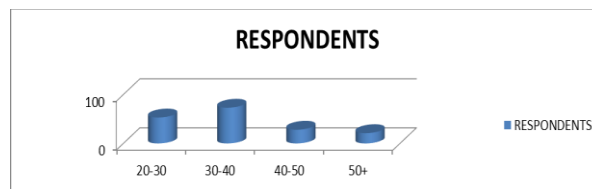
Z- (1)1.388

The result shows that no significant difference in the satisfaction level exist between the male and female investors as the p value in these cases is greater than 0.05. So we accept the H0a hypothesis.

B. Age wise classification of investors

Table 2
 Age wise classification of investors

Category	Respondents	Percent
20-30 years	53	30.3
31-40 years	73	41.7
41-50 years	28	16.0
Above 50	21	12.0
Total	175	100.0



Interpretation: It shows that investors are categorized into different age groups. Majority of the investors belonged to 31-40 age category and the next majority comes to 20-30 category.

Hypothesis testing

- H0b: The level of satisfaction does not differ with age.
- H1b: The level of satisfaction differs with age.

A one sample analysis of variance (ANOVA) is used to test hypotheses about means when there are three or more groups of one independent variable. The result of the analysis is exhibited in,

Table 3
 Mean, Standard deviation and F value for Age

Variable	Age	N	Mean	Std.
				Deviation
Level of Satisfaction	20-30 years	53	24.92	5.59
	30-40 years	73	28.30	3.62
	40-50 years	28	31.14	1.84
	50 & above	21	31.81	0.40

F-VALUE- 6.6061

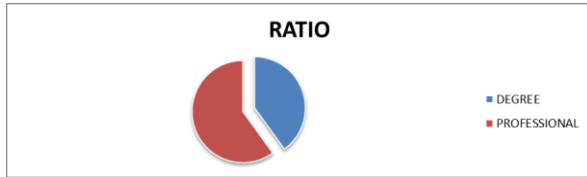
P-VALUE- 0.0069

The results of the ANOVA reveals that assumed significance value (p) is less than 0.05. The results proved that the level of satisfaction differ with age. We reject the hypothesis H0b. Since the ANOVA test indicate that the significant difference exists among the different Age group for the Satisfaction.

C. Education wise classification of investors

Table 4
Table title comes here

Education	Respondents	Percent
Degree	70	40.0
Professional	105	60.0
Total	175	100.0



Interpretation: The study reveals that majority of the investors (60 percent) are professionally qualified while others (40 percent) have completed their graduate degree.

Hypothesis:

- H0b: There is no significant difference in the satisfaction level of investors in relation to education.
- H1b: There is significant difference in the satisfaction level of investors in relation to education.

Table 5
Means, Standard deviation and F value for Education

Variable	Education	N	Mean	Std. Deviation
Level of Satisfaction	Degree	70	30.43	2.03
	Professional	105	26.64	5.25

Z-VALUE-6.685

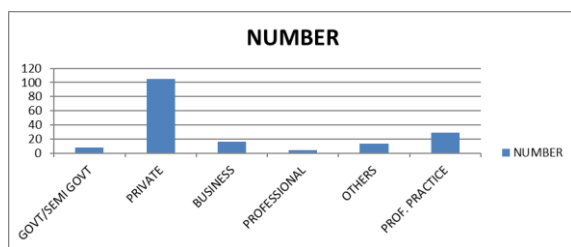
P-VALUE-0.000085

The results of the Z-test shows that assumed significance value, (p) is less than 0.05. The results proved that the level of satisfaction differ with education of the respondent. We reject the hypothesis H0b.

Since the Z test indicate that there is significant difference in level of satisfaction in respect of education. Therefore, we accept H1b hypothesis.

Table 6
Occupation wise classification

Occupation	Respondents	Percent
Government/Semi-Government service	8	4.6
Private sector	105	60.0
Business	16	9.1
Professional Practice	29	16.6
Professional	4	2.3
Others	13	7.4
Total	175	100.0



Interpretation: Majority of the respondents are private sector

employees (60 percent), followed by professionals (16.6 percent), businessmen (9.1percent) and others (including daily wage earners and unemployed persons) which constitute 7.4 percent.

Hypothesis:

- H0b: The level of satisfaction does not differ with occupation.
- H1b: The level of satisfaction differs with occupation.

A one sample analysis of variance (ANOVA) is used to test hypotheses that there is significant difference in the satisfaction level of investors in derivative trading. The result of analysis is exhibited in

Table 7
Means, Standard deviation and F value for Occupation

Variable	Occupation	N	Mean	Std.
				Deviation
Level of Satisfaction	Government/Semi-Government service	8	31.50	0.53
	Private sector	105	27.02	4.80
Satisfaction	Business	16	24.25	4.58
	Professional Practice	29	31.24	1.18
	Professional	4	32.00	0.00
	Others	13	32.00	0.00

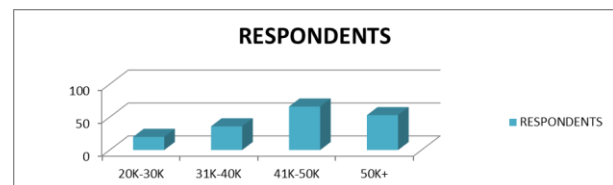
F-VALUE- 12.239

P-VALUE- 0.001

The results of ANOVA proved that significance level, $P < 0.05$. The results of analysis reveal that the level of satisfaction differ with occupation of the investors. Hence we reject the hypothesis H0b. Since the ANOVA test indicate that there is significant difference in the satisfaction level of investors. Therefore, we accept H1b hypothesis, the level of satisfaction differs with occupation.

Table 8
Income wise classification

Monthly income	Respondents	Percent
Rs. 20000 to Rs.30000	20	11.4
Rs. 31,000 to Rs. 40,000	36	20.6
Rs.41, 000 to Rs 50,000	66	37.7
Rs 50,000 and above	53	30.3
Total	175	100.0



Interpretation:

The income wise classification of investors are presented in the table. The results shows that majority of the respondents (37.7 percent) earn Rs. 41,000 to Rs. 50,000 per month. Around 30.3 percent of the respondents earn more than Rs. 50,000 per month. 20.6 percent of the respondent earn Rs. 31,000 to Rs. 40,000 per month.

Hypothesis:

- H0b: The level of satisfaction does not differ with income.
- H1b: The level of satisfaction does differ with income.

A one sample analysis of variance (ANOVA) is used to test the hypotheses that there is no significant difference in the satisfaction level of investors. The result of the analysis is shown,

Table 9
Table title comes here

Variable	Income	N	Mean	Std.
				Deviation
	Rs. 20000to Rs. 30000	20	27.20	4.37
Level of	Rs. 30,000 to 40,000	36	24.67	5.30
Satisfaction	Rs.40, 000 to Rs. 50,000	66	27.77	4.50
	Rs. 50,000 and above	53	31.36	1.23

F-21.016
p-< 0.001

The results of the ANOVA proved that assumed significance value is less than 0.05. The results reveal that the level of satisfaction differ with income of the respondent. We reject the Null hypothesis and accept the Alternative hypothesis. The test results indicate that there is significant difference in the satisfaction level of investors in Futures trading activity.

D. Suggestion

There is a need to introduce more equity derivatives products in India and has long strides to take in terms of providing larger liquidity and depth to the bigger market players. Many respondents felt that it is right time to introduce the other complex products like exotic derivatives. In this study Derivatives market is risk and return game that’s why the investor get risk. Due to absence of delivery based settlement, many investors may not be participating in the derivatives market. Also, this could bring one more type of product in the basket to be offered to the market at large. Hence, NSE may look at starting the physical delivery derivatives contracts to give further fillip to volume on its exchange in particular and the Indian equity derivatives market at large. Investors are more often invest in index options because of derivatives are highly risky. The study suggests that Government should look forward to setting up a super regulator who can take care of these various regulatory arbitrage/risk issues or there should be joint committee of all the regulatory bodies to look into such concerns of the market from overall perspective. This study can be used by the regulating authorities and broker houses to increase awareness among the investors about derivatives it effects and implications both short and long term.

E. Findings

- It is revealed that majority of the respondents under study are male investors.
- The study shows that investor within the age group of 20 to 30 years are constitute major proportion of investors who trade in derivatives while investors with age above 50 years constitutes a very low proportion

of investors in derivative market segment.

- It is found out that the age of the respondents is has no significant effect on the level of satisfaction among the investors. So we can say that investor’s satisfaction is not based on their age.
- The study shows that investors having professional degree are dominating the Futures and Options market compared to investors with bachelor’s degree.
- It also found that there that level of education of the investors influence their satisfaction from derivative trading.

F. Recommendation

- The derivatives market is newly started in India and it is not known by every investor, so SEBI has to take steps to create awareness among the investors about the derivative segment.
- 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.
- Contract size should be minimized because small investors cannot afford this much of huge premiums.
- SEBI has to take further steps in the risk management mechanism.
- SEBI has to take measures to use effectively the derivatives segment as a tool of hedging.

4. Conclusion

Now a days the investors know about the derivative market, so they are aware as derivative market offers more return, with the concept of hedging of interest rate risk and exchange rate risk with maximum profits and minimum loss investors such as professionals have high perceived interest in market. Indian derivative markets have had a very good performance till date, to continue with this same growth individual investors have to be encouraged to enter into trades more often so that they help to drive the economy. In the study, it was found that derivatives are used as risk Hedging tool and the trend of the spot market affects the trading of Derivatives. It has been noticed that there has been awareness about derivatives trading amongst the derivatives in India since last few years. SEBI and government should take responsibility to create awareness among investors and need to educate individual investors through different seminars or training programs regarding the advantages and risk factors associated with derivative instruments. Respondents perceived that Market Risk and Credit risk are the two major risk observed in capital markets as it tend to fluctuate due to change in internal and external factors.

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