

## Investors Perception Towards Trading in Futures & Options

Jayash Bajpai<sup>1</sup> & Kajal Mehra<sup>2</sup>

<sup>1,2</sup> Galgotias University, India

### ABSTRACT

#### Purpose & Motivation:

We have attempted to ascertain and determine investors' perceptions towards the derivatives market in this research report. An investor may have many questions before making an investment, such as what are the available investment avenues? Where should I put my money? What should I think about? And so forth.

Therefore, financial literacy is of utmost importance. It would therefore be intriguing to view an investment from each of these perspectives. Thus, all of these important considerations are made when starting the current project.

#### Problem:

There is a lack of understanding and awareness among investors regarding the derivative market. Investors always make investments with the hope of earning a return on their investments.

However, there is always a high risk associated with the investment in the derivatives, which is mostly either not recognized or underestimated by the new investors/traders who are mostly new and are at a beginner's stage in the field.

#### Approach:

Derivatives products and trading are developing more quickly these days.

On the other hand, the derivatives component is typically employed for hedging as well as trading.

Additionally, look for a relationship between the money earned and the money spent on derivatives.

We try to find how investors feel about the derivatives instrument and with what perception they enter the derivatives market.

#### Result:

We will try to explore about and get familiar with investors psychology concerning the investment in derivatives instrument and the issues they face due to illiteracy in the beginning stages of the derivatives market.

This study will clarify and throw the light on the basic and general perception of investors on derivatives investing.

## INTRODUCTION

Futures contracts and options contracts falls under the category of the instruments of the derivative market, which currently are a lot trendy among mainly in the beginner investors mostly due to false perceptions and lack of information.

A financial product that is based on, or deduced from, the value of other, more fundamental underlying variables is called a derivative. Innovative risk management solutions and financial services are known as financial derivatives. It is essentially a future contract between two parties, with the original contract serving as the basis for its value (a) financial asset, such as foreign exchange, bonds, or equity, etc, (b) a contract whose value is derived from the price, or index of prices, or underlying securities; and variations or any other type of security.

Following approval from SEBI in May 2000, derivatives trading began in India in June 2000. Two stock exchanges, NSE and BSE, as well as their clearing house or corporation were allowed by SEBI to trade and settle approved derivative contracts through their derivative section.

Additionally, there are many kinds of people who trade in the market as "Market Participants," each with their own set of financial objectives. Different kind of people may want to be involved in the derivative market with different reasons.

The stock market is expanding these days on all stock exchanges worldwide. Companies that require an infusion of capital from investors sell their shares to investors via the stock exchange.

However, stock market is not just about the dealing in shares of the companies with in primary market or secondary market through IPO's or dealing in the previously issued securities.

Nowadays stock markets consist of so many other concepts as well Like Trading (Intraday trading, Delivery or Swing trading, Margine trading, BTST, STBT), Commodity Trading, Investment and Trading in Stock Index, Trading in Futures and Options.

Since less literature availability over specific sections of stock market leads to false perceptions and unconditional suffering to the unaware and beginner investors, the goal of this study is to investigate how investors view the stock market as a whole and specific trading in F&O's.

Therefore, the term "perception" in this study refers to a range of behaviours associated with the individual experiences of trading in F&O's.

The current study is concentrated on distinct viewpoints that are mostly involved in investors consider while predicting and researching the stock market. The risk-based perspective, the behaviour-based perspective, and The research-based perspective, The awareness based perspective.

## LITERATURE REVIEW

**Dr. Ch. Munendar Reddy** (September 2023) “Investors perception towards derivative investment” - Derivatives have shifted the speculative trading to a more controlled environment. This paper analyses the perception of investors towards derivative trading. The study was conducted in Hyderabad to get an insight into the minds of investors to analyse their awareness and perception on investment in derivative instruments.

**Dr. K. RAVICHANDRAN** (Sep 2008) “A study on Investors Preferences towards various investment avenues in Capital Market with special reference to Derivatives” - In India, generally all capital market investment avenues are perceived to be risky by the investors. However, investors of the younger generation are eager to put money into capital market instruments, particularly in the derivatives category. Although investors in the derivatives segment lack sufficient information, they nonetheless attempt to invest in this market and sometimes make judgments with the assistance of brokers or friends.

**Delhi Technological University** {(Vikas Singhal), (May 2017)} “A study of Investors perception towards Derivatives as an Investment Avenue” - The dissertation aims to find an investor’s perception to derivatives as an investment strategy. Based on the primary data collected through questionnaire from the retail investors.

**Dr. Shaik Abdul Majeed Pasha** (August 2013) “Retail investors perception on Financial Derivatives in India” - he Indian financial market has undergone paradigm changes during last two decades. The introduction of derivatives in 2000, on the advice of expert committees, is one of the biggest improvements. It offers the ability of hedging against market risk in the most economical manner possible. Even though the size of the Indian capital market is larger than it was twelve years ago—roughly Rs. 20,000,000 crores annually—both on the NSE and the BSE, market participants, particularly small-retail individual investors, are unfamiliar with the concept of derivatives.

INTERNATIONAL JOURNAL OF PROGRESSIVE RESEARCH IN ENGINEERING MANAGEMENT AND SCIENCE (IJPREMS).

<https://www.linkedin.com/pulse/case-study-effective-option-trading-varun-aggarwal/>

## RESEARCH METHODOLOGY:

Finding out how investors view the stock market and what is their perception specifically towards "Trading in future and options" is the goal of this research. In order to examine investors' viewpoints with the most suitable marketing techniques in the present, we relied on primary data. In addition, secondary sources like books, journal articles, and other research were consulted in order to gather relevant data regarding the different kinds of stock market investments and the attitudes of investors toward them.

- Objectives:

To analyse the socio-economic profile of the investors and their investment characteristics.

To find out the level of awareness of the investors towards trading in financial derivatives .

To analyse the investors' perceptions regarding Equity derivatives or we can say futures and options of any kind.

- Hypothesis:

Ho1: There is no significant relationship between age group of investor and level of awareness about derivative market

Ho2: There is no significant relationship between Educational Qualification of investor and level of awareness about derivative market

Ho3: There is no significant relationship between Marital Status of investor and level of awareness relating to derivative market.

- Data Collection:

The primary data is obtained by administering a structured questionnaire/ schedule to investors & stock broking companies in Bangalore, Delhi NCR & Pune region.

- Sample Size:

A sample of 100 above profile responded opinion was collected with the help of a short questionnaire.

## DATA ANALYSIS AND INTERPRETATION

The role of Future and Options (F&O) trading in financial markets is multifaceted, encompassing various aspects such as price discovery, market efficiency, liquidity provision, market depth, arbitrage opportunities, and market integration. Let's delve deeper into each of these aspects:

### 1. Price Discovery and Market Efficiency:

Future and Options (F&O) trading significantly aids in price discovery within financial markets. Through the continuous trading of futures and options contracts, market participants incorporate various factors such as expectations, beliefs, and risk assessments into asset prices. Efficient price discovery ensures that market prices accurately reflect all available information, thereby enhancing market efficiency and reducing the likelihood of mispricing.

### 2. Impact on Liquidity and Market Depth:

F&O markets play a crucial role in bolstering liquidity and market depth. These markets offer continuous trading opportunities, allowing investors to buy and sell contracts with ease. The liquidity in F&O markets ensures that investors can execute transactions without causing significant price movements, thereby reducing transaction costs and enhancing overall market efficiency. Moreover, liquidity in F&O markets spills over into the underlying cash markets, further contributing to market stability.

### 3. Arbitrage Opportunities and Market Integration:

F&O trading presents arbitrage opportunities for market participants to capitalize on price differentials between related assets or markets. Arbitrageurs exploit these price differences by simultaneously buying and selling assets or derivatives, thereby helping to restore market equilibrium. By engaging in arbitrage activities, market participants contribute to price alignment across different markets, promote market integration, and mitigate inefficiencies. Furthermore, arbitrageurs aid in price discovery and liquidity provision, thereby enhancing overall market efficiency.

### 4. Role in Risk Management and Hedging:

F&O trading serves as a vital tool for managing various types of risks, including price risk, interest rate risk, and currency risk. Market participants utilize futures and options contracts to hedge against adverse price movements, thereby protecting their portfolios and ensuring stability in cash flows. Effective risk management through hedging allows investors, traders, and corporations to focus on their core investment objectives while mitigating the impact of market volatility on their financial positions.

In summary, Future and Options (F&O) trading plays a pivotal role in financial markets by facilitating price discovery, enhancing market efficiency, providing liquidity and market depth, offering arbitrage opportunities, and enabling effective risk management through hedging. These functions contribute to the smooth functioning and stability of financial markets, benefiting investors, traders, corporations, and the broader economy.

### 1. Data Preparation:

- Clean and preprocess the data, ensuring completeness and consistency.
- Organize the data into relevant variables such as customer demographics, shopping behavior, satisfaction ratings, and website interactions.

### 2. Descriptive Analysis:

- Calculate descriptive statistics such as mean, median, standard deviation, and range for satisfaction ratings.
- Generate frequency distributions and histograms to visualize the distribution of satisfaction scores.

### 3. Exploratory Data Analysis (EDA):

- Examine relationships between variables through scatter plots, correlation matrices, and heatmaps.
- Recognize any patterns or trends in customer satisfaction based on demographic factors or shopping habits.

### 4. Hypothesis Testing:

- Formulate hypotheses about factors influencing customer satisfaction, such as website usability, product quality, and delivery speed.
- Employ statistical tests such as t-tests or ANOVA to ascertain whether there are noteworthy differences in satisfaction levels among various groups.

### 5. Regression Analysis:

- Conduct regression analysis to identify predictors of customer satisfaction.
- Explore relationships between satisfaction ratings and independent variables such as website features, product attributes, and service quality.

### 6. Segmentation Analysis:

- Segment the customer base based on demographic characteristics, purchase history, or satisfaction ratings.
- Compare satisfaction levels between segments to identify target groups for tailored marketing strategies.

### 7. Text Analysis:

- Analyse customer reviews or feedback using NLP techniques.
- Extract sentiments, topics, and keywords to understand customer perceptions and identify areas for improvement.

### 8. Predictive Modelling:

- Build predictive models to forecast future satisfaction levels or predict the likelihood of customer dissatisfaction.

- Assess model performance utilizing metrics such as accuracy, precision, recall, and F1-score.

### 9. Validation and Interpretation:

- Validate the results of statistical analyses and predictive models using cross-validation techniques.
- Interpret the findings in the context of your research objectives and theoretical frameworks.
- Identify key drivers of customer satisfaction and prioritize areas for intervention or optimization.

**10. Reporting and Visualization:**

- Display the analysis results using visually engaging and comprehensible charts, graphs, and tables.
- Write a comprehensive report summarizing the findings, insights, and recommendations for stakeholders.
- Communicate actionable insights that can inform strategic decision-making and improve the online shopping experience. By following these steps, you can effectively analyze and interpret data on customer satisfaction in online shopping, gaining valuable insights to enhance business performance and customer engagement.

Table- 1.1(“Gender”)

“Group”	“Frequency”	“Percentage”
Male	77	64.7
Female	42	35.3
Prefer not to say	0	0

Source: Primary data:

Table- 1.2(“Age Group”)

“Age”	“Frequency”	“Percentage”
Below 18	18	15.12
18-23	95	79.84
24-35	0	0
35-50	6	5.04
Above 50	0	0

Source: Primary data

Table-1.3(“Qualification”)

“Qualification”	“Frequency”	“Percentage”
<b>Below Graduation</b>	<b>62</b>	<b>52.10</b>
<b>Graduate</b>	<b>50</b>	<b>42.02</b>
<b>Post Graduate</b>	<b>0</b>	<b>0</b>
<b>PHD</b>	<b>7</b>	<b>5.88</b>

Source: Primary data

Table- 1.4(“Occupation”)

“Occupation”	“Frequency”	“Percentage”
<b>Agriculture</b>	<b>12</b>	<b>10.5</b>
<b>Private Sector Service</b>	<b>7</b>	<b>5.3</b>
<b>Government Employee</b>	<b>0</b>	<b>0</b>
<b>Self Employed</b>	<b>7</b>	<b>5.3</b>
<b>Others</b>	<b>93</b>	<b>78.9</b>

Source: Primary data

Table- 1.5(“Income Level”)

“Average Income”	“Frequency”	“Percentage”
<b>Below 2.5 LPA</b>	<b>48</b>	<b>40.34</b>
<b>2.5-5 LPA</b>	<b>7</b>	<b>5.88</b>
<b>5-10 LPA</b>	<b>28</b>	<b>23.54</b>
<b>10-20 LPA</b>	<b>24</b>	<b>20.16</b>
<b>Above 20 LPA</b>	<b>12</b>	<b>10.08</b>

Source: Primary data

Table- 1.6(“Experience in Stock Market”)

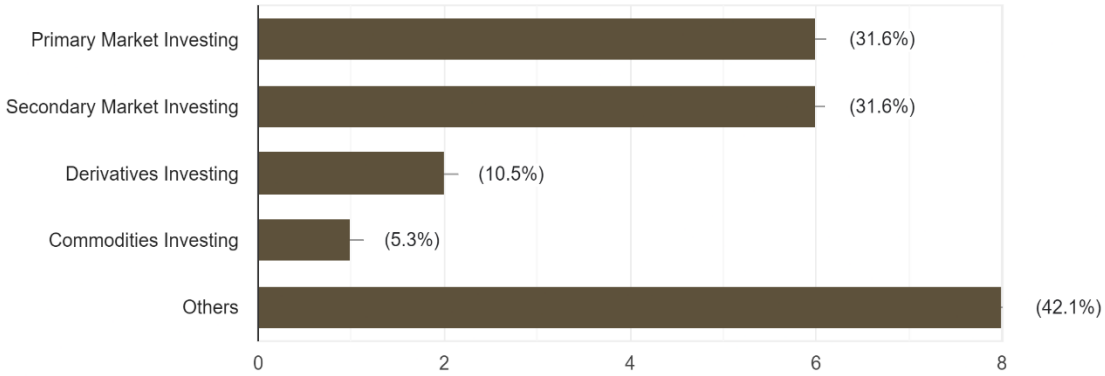
“Experience”	“Frequency”	“Percentage”
<b>0-1 Years</b>	<b>74</b>	<b>62.18</b>
<b>1-2 Years</b>	<b>22</b>	<b>18.48</b>
<b>2-3 Years</b>	<b>14</b>	<b>11.76</b>
<b>Above 3 Years</b>	<b>9</b>	<b>7.58</b>

Source:

Primary data



Type of investment participation majorly: (Can Choose more than one)



Source: Primary data

Table 1.7 (“Experience in Derivative trading”)

“Derivative trading Experience”	“Frequency”	“Percentage”
Yes	82	68.4
No	37	31.6

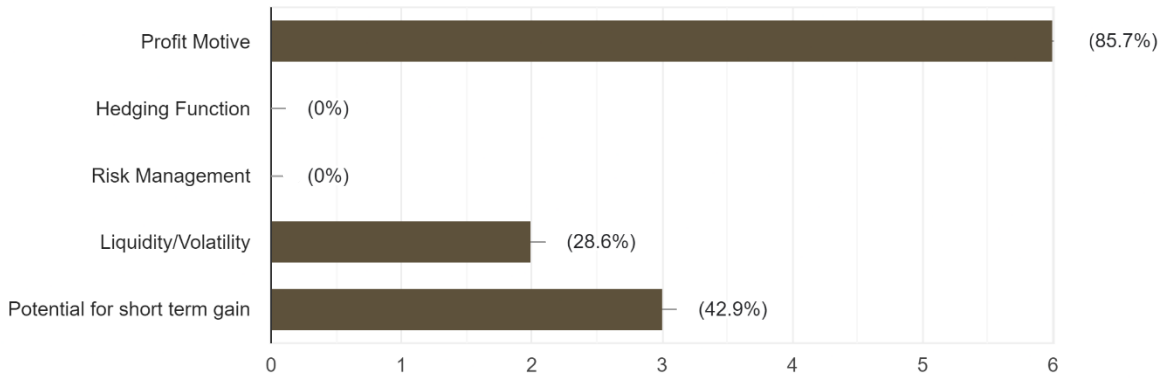
Source: Primary data

Table 1.8 (“Influential Factors”)

“Source of Motivation”	“Frequency”	“Percentage”
Print Media	10	8.42
Electronic Media	40	33.61
Brokers	15	12.6
Self or others actions	54	45.37

Source: Primary data

Reason for joining derivative trading/Investing: (Can choose more than one)



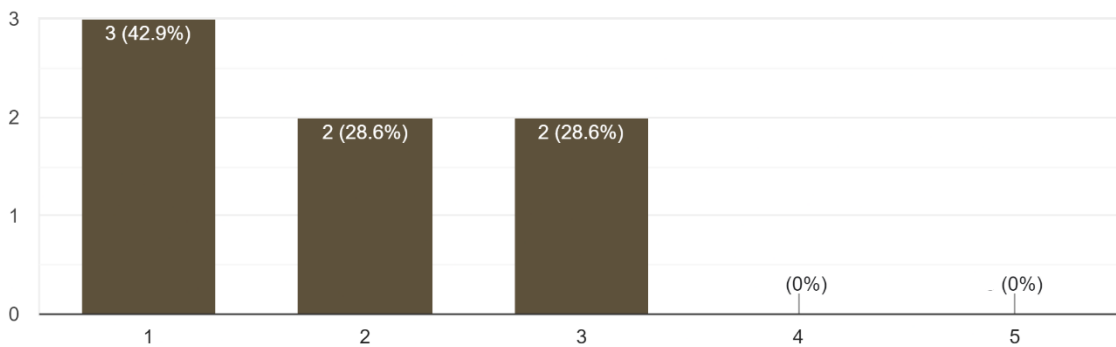
Source: Primary data

Table-1.9(Profile to bear risk)

“Risk Appetite”	“Frequency”	“Percentage”
Low Risk	69	57.98
Medium Risk	50	42.02
High Risk	0	0

Source: Primary data

what is your scale of trading skills:



Source: Primary data

## Quantitative Data Analysis:

**Descriptive Statistics:** Descriptive statistics, including means, standard deviations, and frequencies, are employed to summarize the central tendencies and variability within the data. This provides an overview of participants' knowledge levels across different dimensions of trading and investing.

**Inferential Statistics:** Inferential statistics, such as correlation analysis and regression modelling, are utilized to explore connections among variables and pinpoint noteworthy predictors of customer satisfaction. For example, regression analysis may be used to assess the relative importance of factors such as Income Status, Risk Profile, Qualification, Source of motivation and Experience.

**Segmentation Analysis:** Segmentation analysis involves dividing the sample into meaningful subgroups based on demographic or behavioural characteristics (e.g., age, gender, qualification, income status). This allows for the identification of differences in satisfaction levels and preferences among different customer segments.

**Thematic Coding:** Thematic coding is used to analyse qualitative data from interviews or focus group discussions. Transcripts undergo systematic coding to pinpoint recurring themes, patterns, and categories pertaining to participants' experiences, perceptions, and opinions regarding trading and investing.

**Interpretation:** The identified themes and patterns are interpreted in light of the research objectives to derive meaningful insights and implications. This involves synthesizing qualitative findings with quantitative results to provide a comprehensive understanding of investors perception towards trading in futures and options.

**Integration and Triangulation:** Quantitative and qualitative results are combined using triangulation, enabling a thorough examination and understanding of the data. Triangulation entails comparing and contrasting findings from diverse data sources to authenticate results, pinpoint similarities or differences, and attain a complete comprehension of the research topic.

**Interpretation and Implications:** The interpretation phase involves synthesizing the findings and drawing conclusions regarding the determinants and dynamics. The implications of the findings are discussed in relation to existing literature, theoretical frameworks, and practical implications for online retailers, focusing on customer satisfaction in online shopping.

## SUGGESTIONS OF THE STUDY:

Following an analysis of data gathered from numerous for investors, the following suggestions and recommendations are proposed to enhance their experience:

1. Investors' Perception towards Equity Market.
2. An empirical analysis on perception of investors towards various investment avenues.

3. A Study on Investors Perception and Behaviour Towards Capital Market.
4. INFLUENCES OF STOCK MARKET FACTORS ON INVESTMENT DECISIONS–A STUDY IN RELATION TO INVESTORS PERCEPTION.
5. Perception of investor towards the investment pattern on different investment avenues a review.
6. Investors perception towards capital market reforms in India.
7. Investors' risk profile analysis and their perception towards investing in stock market.
8. Investor's Perception Towards Risk-return in Indian Stock Market: An Empirical Analysis.
9. Impact of social factors on individual investors' trading behaviour.
10. Information technology reshaping trading: Study on customer perception towards online trading
11. Individual investors' trading behaviour and the competence effect.
12. Study on Investor's Perception Towards Trading In Equity Derivatives

#### CONCLUSION:

This study offers significant insights into investors' perceptions regarding trading in futures and options within the Indian financial market. The findings delineate a nuanced landscape influenced by several factors, including awareness levels, perceived benefits, risk perception, regulatory environment, market sentiment, and access to educational resources.

Firstly, the study emphasizes the importance of investor awareness and comprehension of derivative instruments. Although investors exhibit a notable degree of awareness regarding futures and options trading, continuous education is imperative to deepen their understanding of the underlying mechanics and associated risks.

Secondly, investors perceive a range of benefits linked with futures and options trading, such as potential for enhanced returns and the capacity to hedge against market risks. Nevertheless, disparities in perceptions based on investors' experience levels are evident, with seasoned investors generally acknowledging the advantages of derivatives trading to a greater extent.

Thirdly, risk perception emerges as a pivotal determinant of investors' attitudes towards derivatives trading. While some investors view derivatives as effective risk management tools, others perceive them as inherently risky, highlighting the necessity for risk education and mitigation strategies.

Furthermore, the regulatory framework significantly shapes investors' perceptions of derivatives trading. Investor confidence is closely intertwined with the efficacy of regulatory frameworks in ensuring market integrity and safeguarding investor interests.

#### REFERENCES:

- **Dr. Shaik Abdul Majeed Pasha** (August 2013) “Retail investors perception on Financial Derivatives in India”.
- **Delhi Technological University** {(Vikas Singhal), (May 2017)} “A study of Investors perception towards Derivatives as an Investment Avenue”.
- **Dr. K. RAVICHANDRAN** (Sep 2008) “A study on Investors Preferences towards various investment avenues in Capital Market with special reference to Derivatives”.
- **Dr. Ch. Munendar Reddy** (September 2023) “Investors perception towards derivative investment”.
- <https://www.linkedin.com/pulse/case-study-effective-option-trading-varun-aggarwal/>
- INTERNATIONAL JOURNAL OF PROGRESSIVE RESEARCH IN ENGINEERING MANAGEMENT AND SCIENCE (IJPREAMS)

APPENDICES:

1. Questionnaire:

A copy of the survey that was used to gather information from research project participants is included in this appendix. It makes the survey's design transparent and enables readers to comprehend the particular questions posed to respondents.

Below is the attached path to the survey:

- <https://forms.gle/7oVJFkc9RXsi5Bbc9>

2. Ethical Considerations:

This appendix outlines the ethical considerations taken into account during the research process, including participant consent, confidentiality, and data handling procedures.