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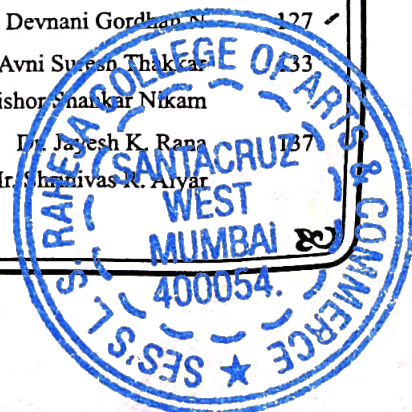
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Retail Investors' Perception towards Equity Futures and Options Markets vis-à-vis with other investment avenues

□ Laila Ahmed Patel*

ABSTRACT

As a result of economic reforms and opening up of the economies of developed and developing countries, there has been an exponential growth in global trade and business over a period of last 20 years. Due to this development, many risks such as interest rate risk, exchange rate risks and risk due to volatility stock prices have arisen and they need to be addressed by the financial companies around the globe. It is pertinent to mitigate these risks in order to ensure the profitability and long term survival of the companies. In order to address these risks new financial products have been developed which are popularly known as Financial Derivatives. There are two main products in Financial Derivatives – Futures and Options. These can be used to comprehensively reduce the financial risks to businesses. Financial Derivatives have grown astronomically around the world and in India. Financial Derivatives – Futures and Options started trading in India in June 2000 and since then they have exhibited tremendous growth both in terms of turnover and volume of contracts traded. Many retail investors are becoming aware of these instruments and are using them for various purposes to mitigate their risks. Economic reforms in India have increased awareness about the various investment avenues available to investors in order to achieve their financial goals. This study attempts to provide an insight about the retail investor's perception towards equity Futures and Options vis-à-vis traditional investment avenues in terms of their behavior, risk and return perception.

Keywords : Derivatives, Futures, Options, Bank deposit, Mutual fund, Gold and silver, equity, risk and returns.

I. INTRODUCTION

Investment is necessary for the economic development of economy. It enables companies to raise capital thereby increasing overall aggregate demand and consumption in the economy along with creating jobs in the society.

In India, there are ample of investment opportunities. Investors have to decide where to invest, when to invest and right time to enter and exit. All these decisions are based on the demographic factors such as age, gender, income and occupation and education of the investors.

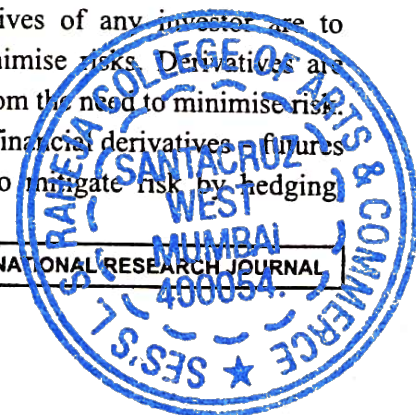
Besides these factors, psychology of investors plays significant role. Investors consider risk and return before taking trading decisions. Investors are aware about the traditional investment avenues such as fixed deposit, mutual fund, gold & silver, real estate. However their

awareness regarding financial derivatives – futures and options, is limited. This paper examines retail investor perception towards equity futures and options vis- a- vis other investment avenues.

Derivatives are financial instruments whose “value” is derived from the value of the underlying. Hence, they are called “derivative” i.e. derive from something else. The underlying on which derivative is based could be: Asset: e.g. stocks, bonds, mortgages, real estate, commodities. Index: e.g. stock market indices, Consumer Price Index, Foreign Currencies and interest rates.

The primary objectives of any investor are to maximise returns and minimise risks. Derivatives are contracts that originated from the need to minimise risk. There are two products in financial derivatives – futures and options which help to mitigate risk by hedging

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making the markets deep by bringing in speculator who helps in price discovery and is also used for arbitrage.

REVIEW OF LITERATURE

Shobana V.K. and Jayalakshmi J 7, (2009), in their study entitled, "Investor Awareness and Preferences", studied the investors' preferences, the level of investor awareness and the factors influencing investor awareness of 100 respondents in Salem District. The study reveals that real estate, bank deposits and jewellery were the preferred investments. Investors above 50 years of age, post graduates and professionals had high level of awareness. Age and education do not have any significant influence over investor awareness but occupational status leads to difference in the awareness level of people.

Das Kanti Sanjay (2012) studied the middleclass household's investment behavior and found that the trends of investment by households are not similar in nature and they vary between several financial instruments. The study reveals that amongst other avenues the bank deposits remain the most popular instrument of investment followed by insurance and small saving scheme with maximum number of respondents investing in fixed income bearing option.

Shaik Pasha Majeed Abdul, Murty Dr. T. N., R.Vamsee Krishna, Gopi Kiran V.Hemantha (2012), the study examines that the level of importance assumed by the retail equity investors on various investment objectives based on the socio economic variables and selective investment profile factors. Researchers found that investors do not behave in a merely rational manner across financial markets and there are a variety of factors influencing their decision-making in investment; among those factors, psychological factors, sociological factors and demographic factors are the major elements.

A study was conducted to ascertain the preference of investors and their requirement towards derivative investment that was based on convenience sampling (Bandivadekar & Ghosh, 2003). It was identified that the investors mostly preferred equity schemes while making investment into mutual funds. In addition to that a research study was also conducted to analyze the effect of a number of demographic factors on the attitude of investors towards equity and derivatives. The It was also observed that most of the respondents had lack of awareness about various aspects of derivatives (Chawla,

2014).

OBJECTIVES OF THE STUDY

1. To understand the demographic variables of retail investors.
2. To study the retail investor's perception towards equity Futures and Options vis-à-vis traditional investment avenues.
3. To analysis risk and return perception towards various investment avenues.

RESEARCH METHODOLOGY OF THE STUDY

- > **Primary Data:** Survey method. Data was collected through well-structured questionnaire.
- > **Secondary Data:** The data for study was collected from various sources such as books, referred journals and NSE publications.
- > **Sampling Elements:** The sampling elements consist of retail investors trading in various investment avenues.
- > **Sample size-** 100 Retail investors investing in various investment avenues.
- > **Sampling Method -** Snowball sampling and convenience sampling.
- > **Sampling Area-**The data was collected from suburbs of Mumbai.

Limitation of the study :- There are many investment avenues but the study is restricted to only five investment avenues such as equity shares, mutual fund, bank fixed deposit, Gold & Silver and equity futures and options. The study cover only retail investors of Mumbai suburbs.

DATA ANALYSIS AND INTERPRETATION
TABLE-1.1: GENDERWISE DISTRIBUTION OF RETAIL RESPONDENTS

Male	Female
78%	22%

Table No. 1.1 depicts majority of retail investors are male.

TABLE-1.2: AGE PROFILE OF RETAIL RESPONDENTS

Age(years)	% of Respondents
Less Than 20	5%
20-40	72%
40-60	21%
Above 60	2%

Table No. 1.2 shows majority of the retail respondents belong to the age group of 20-40 years.

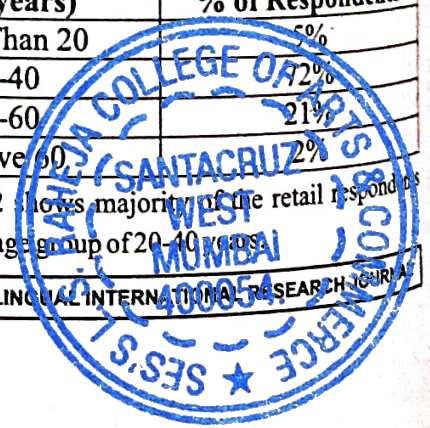


TABLE-1.3: ANNUAL INCOME OF RETAIL RESPONDENTS

Annual Income	% of Respondents
Less Than 5 Lakhs	10%
5 lakhs – 7.5 lakhs	48%
7.5 lakhs - 10 lakhs	20%
Above 10 Lakhs	22%

Table 1.3 shows majority of retail respondents earn between Rs. 5 lakhs to Rs. 7.5 lakhs annually.

TABLE-1.4: MAIN OCCUPATION OF RETAIL RESPONDENTS

Main Occupation	% of Respondents
Business	31%
Government Employee	12%
Private Employee	35%
Retired	22%

Table No. 1.4 depicts majority of the retail respondents (35%) are private employees.

TABLE-1.5: MOST PREFERRED INSTRUMENT TO TRADE/INVEST

Products	Percentage
Equity Shares	17%
Mutual Fund	20%
Bank Fixed Deposit	28%
Gold & Silver	25%
Equity F&O	10%
Total	100%

Table No 1.5 illustrates bank fixed deposit is considered to be the most preferred product amongst all the respondents. Trading in equity futures and options is considered to be least preferred.

TABLE-1.6: RISKS AMONG VARIOUS INVESTMENT PRODUCTS

Risk Level	Equity Shares	Mutual Fund	Bank Fixed Deposit	Gold and Silver	Equity F & O
High Risk	35%	14%	5%	22%	95%
Moderate Risk	62%	60%	2%	32%	5%
Low Risk	3%	26%	66%	38%	0%
Not Applicable	0%	0%	28%	8%	0%
Total	100%	100%	100%	100%	100%

Table No. 1.6 illustrate the risk level perception of various financial instruments among the respondents.

In case of Equity shares, 62% of the respondents opined it to be of moderate risk, followed by 35% who feel that it is having high risk. Only 3% of the respondents feel it's a low risk product. **Thus majority of the respondents (62%) opined Equity shares as a moderate risk product.**

In case of Mutual Fund, 60% of the respondents observe it to be having moderate risk, 26% feel they have low risk, 14% of the respondents observed it as a high risk product. **Thus majority of the respondents (60%) are of the opinion that Mutual Funds are having moderate risk.**

In case of Bank Fixed Deposit, 66% of the

respondents feel it's a low risk product, 5% feel they have high risk, 2% of the respondents viewed it as a moderate risk product while 28% of the respondents do not invest in Bank Fixed Deposits. **Thus majority of the respondents (66%) are of the opinion that Bank Fixed Deposit are a low risk product.**

In case of Gold & Silver, 38% of the respondents opined it to be of low risk, followed by 32% who feel that it is having moderate risk. 22% of the respondents feel it's a high risk product. **Thus majority of the respondents (38%) opined Gold & Silver as a low risk product.**

In case of Equity F&O, 95% of the respondents view it as a high risk product and 5% feel they have moderate risk. **Thus majority of the respondents (95%) are of the opinion that Equity F&O carry high risk.**

TABLE-1.7: RETURNS AMONG VARIOUS PRODUCTS

Return Level	Equity shares	Mutual Fund	Bank Fixed Deposit	Gold and Silver	Equity F&O
High Return	52%	15%	8%	26%	89%
Low Return	0%	26%	69%	8%	8%
Moderate Return	48%	58%	23%	66%	8%
Not Applicable	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%

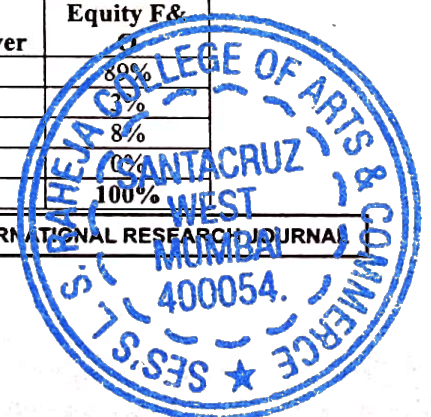


Table No. 1.7 illustrate the level of returns that the respondents expect from various financial instruments.

In case of Equity, 52% of the respondents believe that they provide high returns & 48% believe that equity provide moderate returns. Thus majority of the respondents (52%) opined Equity as a high return product.

In case of Mutual Fund, 58% of the respondents said that they provide moderate returns, 26% said they provide low returns while only 15% said that mutual funds provide high returns. Thus majority of the respondents (58%) are of the opinion that Mutual Funds provide moderate returns.

For Bank Fixed Deposit, 69% of the respondents feel it's a low return product, 23% feel they give moderate returns and only 8% of the respondents feel that they

provide high returns. Thus majority of the respondents (69%) are of the opinion that Bank Fixed Deposit are a low return product.

In case of Gold & Silver, 66% of the respondents opined it to be of providing moderate returns, followed by 26% who feel that it is providing high return. Only 8% of the respondents feel it's a low return product. Thus majority of the respondents (66%) opined Gold & Silver as a low moderate return product.

In case of Equity F&O, 89% of the respondents view it as a high return product, 8% said it provides moderate returns & only 3% of the respondents believed that equity F&O provide low returns. Thus majority of the respondents (89%) are of the opinion that Equity F&O provide high returns.

To summarize the findings of 1.6 & 1.7 in the below mentioned chart :

Product	Risk Level	Return Level
Equity shares	Moderate	High
Mutual Fund	Moderate	Moderate
Bank Fixed Deposit	Low	Low
Gold and Silver	Low	Moderate
Equity F & O	High	High

TABLE-1.8: FACTORS INFLUENCING INVESTMENT DECISIONS

Factors	Percentage
Liquidity	25%
Risks	12%
Returns	18%
Safety of Capital	38%
Inflation	7%

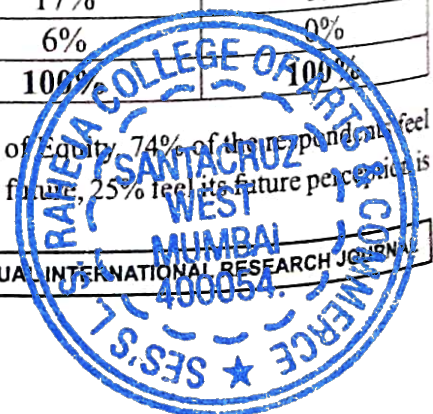
Table 1.8 indicates that Safety of Capital is the most influencing factor while taking investment decisions and inflation is least consider.

TABLE-1.9: FUTURE PERCEPTION OF VARIOUS FINANCIAL INSTRUMENTS

Future Perception	Equity shares	Mutual Fund	Bank Fixed Deposit	Gold and Silver	Equity F & O
Bright	74%	48%	37%	46%	65%
Ok	25%	43%	46%	31%	29%
Poor	2%	8%	17%	17%	6%
Very Poor	0%	2%	0%	6%	0%
Total	100%	100%	100%	100%	100%

Table 1.9 shows the future perception of the respondents towards the various financial instruments

In the case of Equity, 74% of the respondents feel that it has a bright future, 25% feel its future perception is



OK and only 2% said that its future is poor. **Thus majority of the respondents (74%) feel that equity as a financial instrument possess Bright future.**

In case of Mutual Funds, 48% of the respondents expressed the opinion that it has a Bright future, followed by 43% who said that its future is OK, 8% said that its future is OK and only 2% felt that its future perception was very poor. **Thus majority of the respondents (48%) opined that Mutual Funds have a Bright future.**

In the case of Bank Fixed Deposit, 37% of the respondents have a bright future perception, 43% feel future perception is OK and 17% said that they feel that it possess Poor future perception. **Thus majority of the respondents (43%) said that future perception Bank Fixed Deposits is ok.**

In the case of Gold & Silver, 46% of the respondents feel that it has a bright future, 31% said their future perception is OK, 17% said that they feel that it possess Poor future perception and 6% of the respondents said that they feel its future is very poor. **Thus majority of the respondents (46%) expressed that the future perception of Gold & Silver is Bright.**

In the case of Equity F&O, 65% of the respondents feel that it has a bright future followed by 29% who said that its future perception is ok, 6% said that its future is poor. **Thus majority of the respondents (65%) expressed that equity F&O has a Bright future.**

RECOMMENDATION

- Investment planning is very crucial for selecting investment. Retail investors should keep in mind their financial objectives; age and future obligations while selecting investment avenues.
- Investors should invest prudently by understanding risk and return involved in various

investment avenues.

- Inflation is significant factor while choosing investment products.
- Retail investors should change their mindset that only investing in bank fixed deposits and gold & silver is only safest. Explore new investment/trading products
- Equity futures and options should be used for mitigating the risk involved in investment.
- As a smart investor mantra, **“Don't keep all your eggs in one basket”** i.e. diversification is the key to be a successful investor.

CONCLUSION

Bank fixed deposits are considered safest as there is no loss of principal amount even though inflation adjusted returns may be negative.

Gold/Silver is purchased by Indians mostly on festive occasions and is considered as good omen. They hardly sell their holdings in Gold/Silver and thus the local demand is buoyant enough to protect any downside risk. Equity Futures and Options are considered as high risk and high return products.

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