

Investors' Perception towards Derivatives With Reference to Futures and Options in Trichy

^aK.Sarathkumar, ^bSp.Dhandhayuthapani,

^aMBA Final Year, ^bAssistant Professor, Department Of Management Studies, Anna University-Bit Campus, Trichirapalli-24, India

Abstract

The Indian financial market has undertaken great changes during the last two decades. One of the most changes is the introduction of derivatives in the year 2000 on recommendation of expert committees to provide the facility for hedging in the most cost-efficient way against market risk. Market participants especially small-retail individual investors are not familiar with the concept of derivatives. Still they have misunderstandings about derivatives. They believe in the myths of derivatives as an alternative of realities. Really, they feared derivatives due to lack of knowledge about them and their use. This study main objective is awareness about the derivative markets. An attempt is made by to know what kind of perceptions had by investors in Trichy based on reference with a sample size of 100 respondents.

Introduction

Derivatives are the instruments to hedge risk arising from investment made in underlying asset. Derivatives are those instruments, the value of which depends upon the underlying asset on which it is created. These underlying assets may be a commodity, securities, or index. Financial derivatives have changed the face of finance by creating new ways to understand, measure, and manage financial risks. Financial derivatives are designed to provide protection to participants in financial markets against adverse arrangements in the prices of the underlying assets. Financial derivatives include **forwards**, **futures** and **options** the underlying assets to which they relation include stocks, bonds, foreign currencies, interest rates and stock market indices.

Forward contracts are commitments entered into by two parties to exchange a specific amount of money for a particular good or service at a specified future time. Future contracts are standardized contracts/agreements to exchange particular types of goods, in specific amounts and at specific future delivery or maturity dates. Option is involves a choice. Financial options are typical examples of options contracts. They may relate to individual stocks, interest rates, stock indices, bonds, currencies or futures. There are two types of options: call options and put options. Call option give the buyer the right but not the responsibility to buy a given quantity of the underlying asset, at a given price on or before a given future date. Put option give the buyer the right, but not the obligation to sell a given quantity of the underlying asset at a given price on or before a given date. An attempt to study the investors perception towards Derivative with reference to futures and options in Trichy district.

Literature Review

Bhatt, Dr. Babaraju conducted study on “**Perception of Investors Towards Derivatives as an Investment Avenue**” in the year 2014. The Derivatives are risk management tool that support in effective management of risk by various stakeholders. Derivatives provide anchance 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 equity derivatives market has been really encouraging and successful. The derivatives turnover on the NSE has surpassed the equity market turnover. This study main objective is identify the factors which affect the investment decision in derivatives.

Prakash Yalavatti conducted research on “**A Study on Strategic Growth in Indian Financial Derivatives Market**” in the year 2015. The past two eras have observed the multiple growth in the volume of international trade and business due to the adoption of globalization and liberalization all over the world. As result, the demand for the international money and financial tools increased significantly at global level. In this respect, change in exchange rates, stock prices and interest rates of different financial markets have increased the financial risk to the corporates and investors internationally. This study due to some adverse changes in this, which threatened the survival of business world. Therefore, in order to manage such risk, the fresh instruments have been developed in the financial markets, which are popularly known as financial derivatives at national and global financial market.

Dr.Kamlesh Gakhar; Ms. Meetu conducted research on **Derivatives Market in India: Evolution, Trading** in the year 2013. The Indian derivative market has become multi-trillion dollar markets over the years. Marked with the ability to partially and fully transfer the risk by securing in assets prices, derivatives are gaining popularity among the investors. Since the economic reforms of 1991, maximum efforts have been made to encourage the investors’ confidence by making the trading process more users’ friendly. Still, there are specific issues in this market. So, the present paper is an attempt to study the evolution of Indian derivative market, trading instrument in its various products and the future prospects of the Indian Derivative market.

Dr. Rishi Manrai research on **Investor Behavior towards Derivative Markets in Indian Context**. The concept of behavioral finance is growing in the capital market, there is hardly any place where its concepts aren’t being applied. There is a need to grab more consideration of the investor’s towards derivative market and draw inferences from investor’s behavior so that the derivative market can benefit and understand investor’s preference better and unravel the factors that influence the risk forbearance level of the investors. So the crux of the study will give the researcher a quantitative model reflecting the factors affecting the investor behavior in derivative market with load factors. Through this study the researchers would like to study the different factors responsible for the investment behavior in derivative market.

Objectives

1. To study the awareness about derivative market as well as awareness about major derivative type such as futures and options among the investors in Trichy.

2. To analyse the relationship between respondents socio economic status and their extent of awareness on derivative market.
3. To evaluate the perceived risk in various investment options and find the role of socio economic status on the perceived risk among investors in the study region.
4. To bring out the investment activities of investors towards futures and options in derivative markets.

Research Methodology

This study research is based on primary data and secondary data. This primary data are collected from investors in stock market. Secondary data are collected from journals, books, websites and articles. The primary data are prepare for questionnaire method the topic of the study.

Distribution of Respondents by Socio-Economic Characteristic

General Profile	Number of Respondents	% to Total
Sex		
Male	82	82
Female	18	18
Age (in Years)		
Up to 30	32	32
31 – 40	45	45
> 40	23	23
Education		
Secondary	20	20
Graduates	16	16
Post-Graduates	40	40
Professional	24	24
Occupation		
Self-Employed	41	41

Private/Govt. Employee	51	51
Housewife/Student/Retired	8	8
Area of Residence (Location)		
Rural	28	28
Semi-urban	35	35
Urban	37	37
Marital Status		
Married	64	64
Unmarried	34	34
Income		
Up to Rs.30000	28	28
Rs.31000 – 50000	33	33
> Rs.50000	39	39
Total Sample	100	100.0

Source: Primary Data.

Results and Discussion

Most of the respondents (45%) are age group of the 31-40. Majority of the respondents (82%) are male because they are ready to take risks in their investment but female avoid to take risk. Most of the respondents (40%) are graduates followed by Post graduates because they are aware of the derivatives concepts. Most of the respondents (51%) are Private/Govt. Employee. Most of the respondents (50%) are preference to derivative market. Most of the respondents (39%) are having an Income level more than Rs.50000. Most of the respondents (40%) are influenced by friends & relatives followed by share brokers. Most of the respondents (48%) said that News Papers and Financial Specialists help them to decrease their risk. And most of the respondents (30%) invest in stock market followed by stock market option.

Conclusion

After this Study known about of investor perception for investment in derivatives market,

Particular worthwhile results were found out in the light of awareness. With regard to investor behavior towards trading in derivative instruments like futures and options, low investment is the major factor prior to high return and high liquidity attracting the investors to invest in derivative market. Majority of the investors in capital markets tend to invest more than 50 per cent of their total investment in derivative market. At the same time, the percentage of total investment invested in derivative market is significantly associated with total investment in capital market, duration of association with capital market and duration of investment in derivative market. However, the percentage of total investment invested in derivative market is independent of the level of risk perceived to be inherent in the derivative market.

Bibliography

- Bhatt, Dr. Babaraju. K. (2014, December). THE STUDY OF INVESTOR'S PERCEPTION TOWARDS DERIVATIVES AS AN. *Kadokia International Journal of Research in Multidiscipline*, 1(3), 127-137.
- Prakash Yalavatti. (2015, October). A STUDY ON STRATEGIC GROWTH IN INDIAN FINANCIAL DERIVATIVES MARKET. *International Journal of Recent Scientific sResearch*, 6(10).
- DR. (MRS.) KAMLESH GAKHAR*; MS. MEETU**. (2013, march). DERIVATIVES MARKET IN INDIA: EVOLUTION, TRADING. *International Journal of Marketing, Financial Services & Management Research*, 2, 38-50.
- Dr. Rishi Manrai. (n.d.). Investor Behavior towards Derivative Markets in Indian Context. *IOSR Journal of Business and Management (IOSR-JBM)*, 10-14.
- REVATHI PANDIAN. (2015, march). A STUDY ON FINANCIAL DERIVATIVES (FUTURES & OPTIONS). *International Journal of Research in Business Management*, 3(3), 1-15.
- Dr. Shaik Abdul Majeed Pasha. (2013, August). RETAIL INVESTORS' PERCEPTION ON FINANCIAL DERIVATIVES IN INDIA. *European Scientific Journal*, 9.