"A STUDY OF INVESTORS' PREFERENCES TOWARDS VARIOUS INVESTMENT AVENUES IN CAPITAL MARKET WITH SPECIAL REFERENCE TO DERIVATIVES IN AHMEDABAD CITY"

Himanshu Barot*

Dr. V.K.Sapovadia**

Abstract

Investment culture among the people of a country is an essential prerequisite for capital formation and the faster growth of an economy. Investment culture refers to the attitudes, perceptions, and willingness of the individuals and institutions in placing their savings in various financial assets, more popularly known as securities. A bewildering range of investment alternative or channels for making investment are available like's real asset, precious metal, insurance, money market instrument as well as capital market instrument. Capital market refers to stock market which is associated with high risk and high return as against money market which provide risk free return. The subprime mortgage crises of 2008, global financial crises of 2009 and recently euro zone debt crises in 2011 have caused investors in financial products serious losses. And during this derivative instruments were largely criticised on account of their speculative nature. Derivatives are among the forefront of the innovations in the financial markets and aim to increase returns and reduce risk. They provide an out way for investors to protect themselves from the volatility of the financial markets. These instruments have been very popular with investors a over the world. Derivatives market present wide opportunity to the investors to get better return with hedge the portfolio and equipped to become a dominant player in the market. The problem with derivatives instruments is not with the instruments per se but the lack of understanding of their risk/return characteristics by someone. Study has tried to know the preferences and perceptions of investors who are dealing in derivatives along with other investment vehicles.

Keywords: Investment, Attitude, Perception, Preferences, Derivatives, Speculation

---

* Research Scholar, JJT University, Jhunjhunu, Rajasthan, and Asst. Professor, Faculty of Management, SRI Campus, Vadasma, Mehsana, Gujarat, India.

** Ph.D. Guide in Management, JJT University, Jhunjhunu, Rajasthan and Executive Director, Shanti Business School, Jaipur, Rajasthan.

1. Introduction to Investment

Money does not have any value unless and until it is not invested. If a person has a large sum of money and he keeps it in his cupboard, it will not grow. It has to be invested in some financial assert to get a return. There can be no return without the risk. And it is always saying that the risk higher the return. Therefore, investor has to trade-off between risk and return.

Investment culture among the people of a country is an essential prerequisite for capital formation and the faster growth of an economy. Investment culture refers to the attitudes, perceptions, and willingness of the individuals and institutions in placing their savings in various financial assets, more popularly known as securities. A study of the investors' perceptions and preferences, thus, assumes a greater significance in the formulation of policies for the development and regulation of security markets in general and protection and promotion of small and house-hold investors in particular.

A bewildering range of investment alternatives or channels for making investments are available likes real assets, precious metals, insurance, money market instruments as well as capital market instruments. Money Market is a place for short term lending and borrowing typically within a year. It deals in short term debt financing and investment. On the other hands, Capital Market refers to stock market, which refers to trading in shares and bonds of companies on recognised stock exchanges. Individual players cannot invest in money market as the value of investment is large, on the other hand, in capital market, anybody can make investment through a broker. Stock Market is associated with high risk and high return as against money market which provide risk free return.

2. Capital Market of India

The capital market in India has a long history, during the most part; it remained on the periphery of the financial system. Various reforms undertaken since the early 1990s by the Securities and Exchange Board of India (SEBI) and the Government have brought about a significant structural transformation in the Indian capital market. As a result, the Indian equity market has become a transparent.

2.1 The Quantitative Aspects of Market Transformation during 2000-2010[1]

The below table 1 seems the snapshot of the decadal performance of securities market. The turnover in the cash market has nearly doubled over the decade while the market capitalization has become eight times the levels that existed in 2000. The turnover in the Indian derivatives market has increased from US $ 0.086 trillion in 2000-01 to US $ 3.92 trillion in 2009-10 and has surpassed the cash market turnover in India. The resource mobilization in the primary market has increased dramatically, rising six fold between 2000 and 2010. Similarly, the resource mobilization through euro issues has increased significantly over the years.

Table 1: Key performance indicators of securities market (2000-2010)

[1] ISMR 2000-10, NSE Fact book 2000-11 available at www.nseindia.com, RBI: Handbook of Statistics on the Indian Economy – 2010, SEBI: Annual Report 2009-10 and Handbook of Statistics on the Indian Securities Market 2009, MCXSX, Indian Equity Investors Survey 2010,http://www.indiastat.com

Parameters	Compound Annual Growth Rate
Resource Mobilisation in Primary Markets	17.15%
Resource mobilization through Euro Issues	43.89%
All-India Market Capitalisation	23.15%
All-India Equity Market Turnover	19.94%
All-India Equity derivatives turnover	132.19%
Assets under Management of Mutual Funds	18.99%
Net Investments by Foreign Institutional Investors	30.53%
Net Investments by Mutual Funds	54.07%

Source: ISMR 2010 available www.nseindia.com

2.2 Movement in Stock Market Indices

The stock market witnessed several corrections during 2000-01, leading to a sharp decline in total market capitalisation, turnover and trading activities. From 2003-04 onwards bullish sentiments prevailed and the market witnessed upward momentum. In the next three to four years, the market recorded a significant uptrend and the BSE Sensex and CNX Nifty rose from 3048.72 to 13072.10 and from 978.20 to 3821.55, respectively, during March 2003 to March 2007. The BSE Sensex and S&P CNX Nifty culminated in their pick of 20873.33 and 6287.85, respectively, in January 2008. However, this bull run soon ended and the market went through significant corrections following the crisis.

2.3 The Fall of Stock Market Indices during 2008-09

The subprime mortgage crisis that appeared as a rolling snowball in 2007 turned into an avalanche in 2008. Due to enhanced international linkages, the cascading effect of the crisis was felt in India as well. The authorities had to declare stimulus packages to boost growth and rejuvenate business activities. As a result, the market started to grow at a faster pace after 2009. At the end of 2009-10, the BSE Sensex stood at 17527. 77 and the S&P CNX Nifty stood at 5249.10. As on March 31, 2010, the number of companies listed on the BSE were 4,975 and on the NSE 1470.

2.4 Growth of Market Capitalisation and Turnover

There has been a substantial increase in the market capitalisation of the major two exchanges of the country. In the earlier years of this decade, there was a sharp fall in the market capitalisation of both exchanges. From 2003-04, the down rend was reversed and the market value of listed stocks again started soaring. The market capitalisation of BSE increased exponentially by 575 percent, from Rs 9,128 billion at the end of March 2000 to Rs 61,656 billion at the end of March 2010. During the same period, market capitalisation of the NSE also increased by 489 percent, from Rs 10,204 billion to Rs 60,092 billion. By the end of March 2010, the annual turnover of the cash segment of the BSE was Rs 13,788 billion and that of the NSE was Rs 41,380 billion.

2.5 Households' investment pattern in financial assets

According to the preliminary estimates by CSO, net financial savings of the household sector in 2008-09 was 10.9% of GDP at current market prices which was lower than the estimates for 2007-08 at 11.5%. The household sector accounted Rs. 791243 crores in Fixed Income investment instruments during 2009-10, as against Rs. 183357 crores in 2000-01. The investment of households in securities was Rs. 44656 crores compared with Rs.10214 crores in 2000-01 which shows more than 4 times growth in both the investment vehicles.

3. Derivatives Market of India

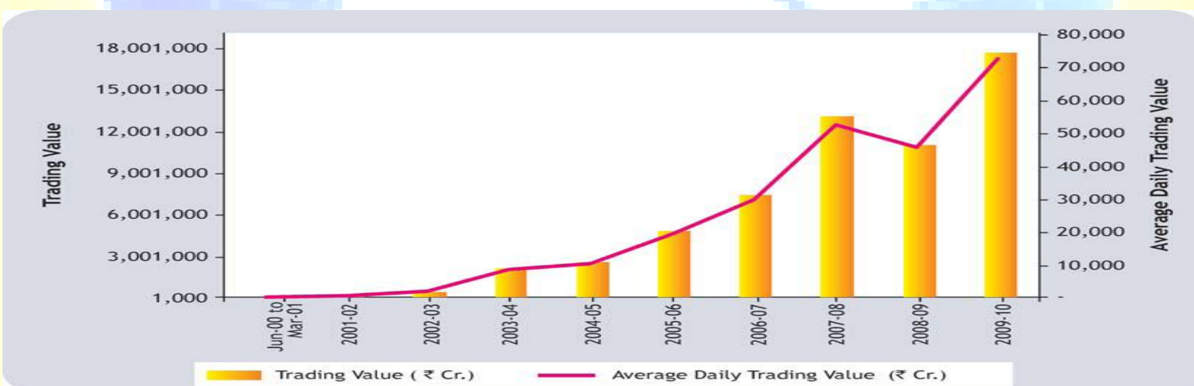
3.1 Derivatives Defined

A derivative is an instrument whose payoffs depend on a more primitive or fundamental good. It is a contractual relationship between parties where payoffs are derived from some agreed upon benchmark. These do not have independent existence without underlying product or commodity. Even, derivatives do not have their own value and rather they derive their value from some underlying product or commodity.

3.2 Trends of Derivatives Market in India

India is one of the most successful developing countries in terms of a vibrant market for derivatives. There is an increasing sense that the equity derivatives market is playing a major role in shaping price discovery. India's experience with launch of equity derivatives market has been extremely positive, by world standards.

Figure 1: Business Growth of Futures & Options Segment



Source: Futures & Options Segment, Factsheet 2011, www.nseindia.com, Pg. No. 109

3.2.1 Comparative of Growth in Cash and Derivatives Segment

During the global recession in 2008-09, derivatives instruments were largely criticised on account of their speculative nature. Since introduction of derivatives segment in the year 2000, it has led both interactions between the spot and derivatives segment in Indian stock market, and concern by regulators in controlling any possible harmful influences of this new trading segment. There are different opinions on impact of derivatives segment on cash segment. It is said that the derivatives segment prices can reflect additional information, over and above that already reflected in the spot price thus can serve as a leading indicator for the spot price.

It is said that cash segment is the mother segment for derivatives segment. India is the country with largest number of registered companies. Earlier BSE was the most popular and reliable stock exchange in India but after introduction of NSE, it has taken over BSE in terms of turnover.

Table 2: Turnover of Cash and Derivatives Segment in India

Year	BSE Turnover (Rs. in Cr.)	NSE Turnover (Rs. in Cr.)	Total Turnover in Cash Segment (Rs. in Cr.)	Total Turnover in Derivative Segment (Rs. in Cr.)
2000-01	1000032	1339511	2339543	4236
2001-02	307293	513167	820459	103853
2002-03	314073	617989	932062	442343
2003-04	503053	1099534	1602587	2142520
2004-05	518715	1140072	1658787	2563166
2005-06	816074	1569558	2385632	4824260
2006-07	956185	1945287	2901472	7415276
2007-08	1578857	3551038	5129895	13332785
2008-09	1100074	2752023	3852097	11022257
2009-10	1378809	4138023	5516832	17663899

Source: SEBI Handbook 2010

The above table seems that when derivatives segment was introduced in 2000-01, it was a new segment for Indian investors but within one year it took momentum and in 2001-02 cash segment trading dropped around 60 percent and almost equal to this decline was the turnover of derivatives segment.

As a logical step to the above progress, derivatives market present wide opportunity to the investors to get better return with hedge the portfolio and equipped to become a dominant player in the market. The problem with derivatives instruments is not with the instruments per se but the lack of understanding of their risk/return characteristics by someone.

4. Objectives

The broad objective of the research is to study investors' preferences towards various investment avenues in capital market with special reference to derivative in Ahmedabad city.

However the specific objectives of the study are as under:

1. To study the demographic factor of the investors dealing in capital market
2. To the preference the level of investors on various capital market instrument
3. To study the types of risk which are considered by the investors

4. To study the ways through which they minimizes their risk
5. To know the investors' perceptions towards derivative market
6. To study the awareness level of investors towards derivative segment

5. Hypothesis

1. Major of the people prefer derivative due to fast return
2. Major of the investors believes that market risk is the major risk in the market
3. An educational qualification of investors affects investment in derivatives segment
4. Monthly income available for investment is dependent on the age
5. Primary purpose of investment is dependent age of investor

6. Research Methodology

In this study secondary data have been collected form books, internet, journal, authorized publications by NSE, BSE, SEBI, etc and primary data has been collected through self structured questionnaire from 100 respondents who are employed or work as free lancers dealing in capital market to know their perception towards investment in capital market with special reference to derivatives in Ahmedabad city only. Researcher has analysed the responses through percentage analysis, hypothesis and chi-square test.

7. Literature Review

Barents Group LLC (1997) studied that Retail investors in India are mostly short-term traders, and day trading is not uncommon. To the extent that buying publicly traded equities is perceived as a risky and speculative short-term activity, many potential investors will simply avoid capital market instruments altogether in deciding to allocate savings.

R. Dixon and R.K. Bhandari (1997) said in their study that consequently derivative instruments can have a significant impact on financial institutions, individual investors and even national economies. Using derivatives to hedge against risk carries in itself a new risk was brought sharply into focus by the collapse of Barings Bank. There is a clear call for international harmonization and its recognition by both traders and regulators. There are calls also for a new international body to be set up to ensure that derivatives, while remaining an effective tool of risk management, carry a minimum risk to investors, institutions and national/global economies. Considers the expanding role of banks and securities houses in the light of their sharp reactions to increases in interest rates and the effect their presence in the derivatives market may have on market volatility.

Patrick McAllister and John R. Mansfield (1998) stated that derivatives have been an expanding and controversial feature of the financial markets since the late 1980s. They are used by a wide range of manufacturers and investors to manage risk. This paper analyses the role and potential of financial derivatives investment property portfolio management. The limitations and problems of direct investment in commercial property are briefly discussed and the main principles and types of derivatives are analyzed and explained. The potential of financial derivatives to mitigate many of the problems associated with direct property investment is examined.

P. M. Deleep Kumar and G. Raju (2001) revealed that the Indian market is probably more volatile than developed country markets, which is probably why a much higher proportion of savings in developed countries go into equities. More than half of individual shareowners in India belonged to just five cities. The distribution of share ownership by States and Union Territories show that just five States accounted for 74.7 per cent of the country's share ownership population and 71.7 per cent of the aggregate value of the shareholdings of individuals in India. Among the five states Maharashtra tops the list with Gujarat as a distant second followed by West Bengal, Delhi and Tamil Nadu. In the midpoint of the study also argued that introduction of derivatives is the first step to hedge the risk of unfavourable movement in the market. This will also lower transaction cost and provides depth and liquidity to the market.

Peter Carr and Dilip Madan (2001) disclosed that generally does not formally consider derivatives securities as a potential investment vehicles. Derivatives are considered at all, they are only viewed as tactical vehicles for efficiently re-allocating funds across broad asset classes, such as cash, fixed income, equity and alternative investments. They studied that under reasonable market conditions, derivatives comprise an important, interesting and separate asset class, imperfectly correlated with other broad asset classes. If derivatives are not held in our economy then the investor confines his holdings to the bond and the stock and the optimal derivatives position is zero.

Hong Kong Exchanges and Clearing Ltd. (2002) surveyed on derivatives retail investors, and argued first based on empirical evidence that years of trading experience and usual deal size have a positive correlation. Majority of traders are infrequent in trade- 3 times or less in a month and Index futures is the most popular product to trade most frequently. The study seems large proportion of the investors invest in exchange cash products than derivatives or investment avenues. Through empirical evidence form investor's opinion, study argued that the liquidity of derivatives products other than futures is low. High transaction costs or margin requirement is the barrier for active participation in derivatives market.

Warren Buffet (2002) argued that derivatives as time bombs, both for the parties that deal in them and the economic system. He also argued that those who trade derivatives are usually paid, in whole or part, on "earnings" calculated by mark-to-market accounting. But often there is no real market, and "mark-to-model" is utilized. This substitution can bring on large-scale mischief. In extreme cases, mark-to-model degenerates into mark-to-myth. Many people argue that derivatives reduce systemic problems, in that participant who can't bear certain risks are able to transfer them to stronger hands. He said that the derivatives genie is now well out of the bottle, and these instruments will almost certainly multiply in variety and number until some event makes their toxicity clear.

JenniferReynolds-Moehrle (2005) used a sample of derivative user and non-user firms; they came to know that analysts' forecast accuracy increased and that unexpected earnings are incorporated into subsequent earnings forecasts to a greater extent subsequent to disclosure of sustained hedging activity. Additionally, the findings indicated an increase in the earnings-return relation in the hedging activity period.

Rajeswari, T. R. and Moorthy, V. E. R. (2005) said that expectations of the investors influenced by their perception and human generally relate perception to action. The study revealed that the most preferred vehicle is bank deposit with mutual funds and equity on fourth and sixth respectively. The survey also revealed that the investment decision is made by investors on their own, and other sources influencing their selection decision are news papers, magazine, brokers, television and friends or relatives.

8. Data Analysis and Discussion

8. 1 Percentage Analysis:

Table1. Educational Qualification of respondents

QUALIFICATION	RESPONDENTS %
Under graduate	4
Graduate	49
Post graduate	36
Professional degree holder	11
TOTAL	**100**

The table seems that the respondents who are more participating in the derivative market belongs to higher qualification which means educational qualification is one of the key factor during selecting investment vehicles.

Table2. Income Range per annum of Respondents

INCOME PER ANNUM	RESPONDENTS %
< 1,50,000	19
1,50,000 - 3,00,000	40
3,00,000 - 5,00,000	31
> 5,00,000	10
TOTAL	**100**

From the analysis it can be concluded that maximum respondents are having the income level between 1, 50,000 to 3,00,000. In short the person having the income above 5, 00,000 is less interested to invest in the derivative market.

Table3. Monthly household income available for the Investment

INCOME AVAILABLE FOR THE INVESTMENT	RESPONDENTS %
5 % - 10 %	39
11 % - 15 %	34
16 % - 20 %	22
> 20%	5
TOTAL	**100**

The survey reveals that 95 percent respondents who are investing less than 20 percent their monthly income which shows Indians are wise savers but poorer investors.

Table4. Come to know about equity related investment

AWARE TO EQUITY	RESPONDENTS %
Brokerage house	29
Friends & relatives	57

Advertisement	8
Other	6
TOTAL	**100**

Table shows most of people are come to know about equity related investment plan through friends and relatives. And brokerage house is also one of the source through which the people are come to know about the equity related investment.

Table5. Preference of Investment Horizon:

PREFERRED HORIZON	RESPONDENTS %
Short term	32
Long term	34
Both	34
TOTAL	**100**

The analysis concludes that the investors are investing their income in derivative market for the mainly hedging purpose. So people prefers to invest in the both the horizon i.e. short term as well as long term as per the market situation.

Table6. Preference of Respondents in following Investment Avenues:

PREFERENCE	Cash segment	Future	Option	Commodities
Highly favourable	69	26	4	3
Favourable	20	31	18	16
Neutral	9	24	46	23
Unfavourable	2	11	18	21
Highly unfavourable	0	8	14	37
TOTAL	**100**	**100**	**100**	**100**

The study reveals that cash segment is highly favorable for investing. Future and option investment avenues are found to be neutral for investing. And the people have the negative preference towards the commodities market for investing.

Table7. Primary investment purpose of Respondents

PRIMARY INVESTMENT PURPOSE	RESPONDENTS %
Retirement planning	16
Increase wealth	73
Supporting future edu. of child	10
Other	1
TOTAL	**100**

As per data the key purpose of invest-ment is increase wealth other than retirement and supporting to child education in future.

Table8. Risk perceive by Respondents while investment

RISK	RESPONDENTS %
Credit risk	17

Market risk	55
Legal risk	19
Operation risk	9
TOTAL	**100**

People found that market risk is the main risk while investing in to the market as the market is very fluctuating in nature. People's perception for the Legal risk and credit risk having almost same due to the policy changing and counterparty risk

Table9. Overcome the Risk existing in the Financial Market

SOURCE	RESPONDENTS %
Friends	16
Research anal9yst	56
News network	25
Other	3
TOTAL	**100**

By the research analyst people are more likely to manage the risk. People are likes to get views from the research analyst.

Table10. Reasons why Investors are not investing in Derivatives

REASONS	Lack of knowledge	Increase speculation	Risky & high leverage	Counter party risk
1	33	35	24	20
2	13	28	40	28
3	29	23	20	7
4	25	14	16	45
TOTAL	**100**	**100**	**100**	**100**

The first reason for not to take participate in to the derivative market due to the increase in speculation. And Lack of the knowledge as well as counterparty risk is also the factor that leads to decrease participation in to the derivative market.

Table11. Participation in derivative market as

PARTICIPATION	RESPONDENTS %
Investor	59
Speculator	25
Broker/dealer	8
Hedger	8
TOTAL	**100**

The study found that major participation in the derivative market as an investor with following speculator, hedger and broker.

Table12. Factor for investing in Derivative Segment

FACTORS	RESPONDENTS %
To hedge	30
Participate without holding	36
Leverage	16
Fast return	18
TOTAL	**100**

This study seems that the main factor for choosing an investment in derivative segment is participate without holding and the second major factor is to hedge their fund.

Table13. Margin Amount is barrier or not

RESPONSE	RESPONDENTS %
Yes	71
No	24
Can't say	5
TOTAL	**100**

It was found that the margin amount is one of the barrier for investor while invest in to the derivative segment. Investors feel that it is the one kind of restriction on them while playing in the derivative market

Table14. Expected margin by Respondents

EXPECTED MARGIN	RESPONDENTS
< 5000	36
5000 – 10000	32
10001 - 15000	17
15001 – 20000	10
TOTAL	**95**

It was found that investor want to expect the minimum margin range to be less than 5000 or would be the 5000-10000. They feel that it is the one kind of barrier for them while invest in to the derivative market.

Table15. Preferred Contract to participate in Derivatives

PREFERRED CONTRACT	RESPONDENTS %
Stock index future	23
Stock index option	41
Future on individual stock	31
Option on individual stock	5
TOTAL	**100**

The table shows investors are more like to participate in to the stock index option and the future on individual stock. They are less preferred to invest in to the option on the individual stock.

Table16. Frequency to trade in Derivative Market

FREQUENCY	RESPONDENTS %
1 to 10 times	30
11 to 50 times	32

> 50 times	20
Regularly	18
TOTAL	**100**

Derivative is one of the hedging tools in the market. It was found that investors generally invest in to the market between the 11 to 50 times when least people are doing it regular basis.

Table17. Result of investment Derivatives Market

RESULT	**RESPONDENTS %**
Great result	29
Moderate but acceptable	54
Disappointed	17
TOTAL	**100**

It was found that the result of the investor in to the derivative market is moderate but the acceptable. So it can be concluding that the result of the investment is average for the investor.

Table18. Expected Growth of Derivatives segment in India

EXPECTED GROWTH	**RESPONDENTS %**
Very fast	27
Moderate	40
Slowly	18
Can't say	15
TOTAL	**100**

Derivative market is the significant innovation of the 21st centenary in Indian market. But still the lack of knowledge of the derivative market is prevailing in to the market. So, it was found that the return is also being the average side and the expectation of growth of the derivative market is also the moderate. So, it can be increase as the knowledge of the market is increase.

8.2 Hypothesis Testing:

Hypothesis: 1

H_0: 50% people prefer derivative due to fast return

H_1: p<50% people prefer derivative due to fast return

P = 50 % null hypothesis, H1: p < 0.50 alternative hypothesis

N = 100, Significant level = 0.10, Q= 1 - 0.50 = 0.50

$$Z = \frac{\hat{P} - P}{\sqrt{\frac{PQ}{N}}} \qquad \hat{P} = \frac{18}{100} = \mathbf{0.18}$$

Calculated value = -6.4 Tabulated Value = -1.285, So Cal < Tab i.e. -6.4 < -1.285 which reveals that study is failed to accept the null hypotheses. So **H_1** is accepted and P < 50% people prefer derivative due to fast return.

Hypothesis: 2

H_0: 50% investors or more believe that market risk is the major risk in the market

H_1 :p< 50% investors believe that market risk is the major risk in the market

P = 0.50 null hypothesis, **H_1**: <50% alternative hypothesis

N = 100, Significant level is = .10, Q=1-0.50= 0.50

$$Z = \frac{\hat{P} - P}{\sqrt{\frac{PQ}{N}}} \qquad \hat{P} = \frac{.55}{100} = 0.55$$

Study has found Z tabulated value is 1.285 where calculated value is 1 means Cal < Tab so researchers are not able to reject null hypotheses and **H_1** is rejected which seems that more than 50% of investor believes that market risk is one of the major factors in the market

Hypothesis: 3

H_0: 38% of investors in derivatives are graduate or more qualified
H_1: p>38% of investors in derivatives are graduate or more qualified
P = 0.38 null hypothesis, H1: >38% alternative hypothesis

N = 100 Significant level is = .10, Q=1-0.38= 0.62

$$Z = \frac{\hat{P} - P}{\sqrt{\frac{PQ}{N}}} \qquad \hat{P} = \frac{96}{100} = 0.96$$

Study has found Z tabulated value is 1.285 where calculated value is 11.96 where 11.96>1.285 that means researchers fails to accept null hypotheses when **H_1** is accepted it seems that p>38% of investors in derivatives are graduate or more qualified

8.3 Chi Square Test: 1

H_0: Monthly income available for investment is dependent on the age

H_1: Monthly income available for investment is not dependent on the age

Significant level = 0.01

Table19. Monthly Income Available for Investment V/s Age

Monthly Income Available for Investment

	5% - 10%	11% - 15%	16% - 20%	21% - 25%	TOTAL
10 - 25	7	1	6	0	**14**
26 - 40	27	29	11	5	**72**
41 - 55	4	3	4	0	**11**

56 - 70	1	1	1	0	**3**
TOTAL	**39**	**34**	**22**	**5**	**100**

Age

χ TAB = 14.68 and χ CAL = 12.93 in this case 12.93<14.68 that means χ CAL < χ TAB value, therefore **H_0** is accepted which reveals Monthly income available for investment is dependent on the age.

Chi Square Test: 2

H_0: Primary purpose of investment is dependent age of investor

H_1: Primary purpose of investment is not dependent age of investor

Significant level = 0.01

Table20. Investment purpose V/s Age

Investment purpose

Age	Retirement	Increase wealth	Supporting future edu for child	Other	TOTAL
10 - 25	1	11	2	0	**14**
26 - 40	12	53	7	0	**72**
41 - 55	1	8	1	1	**11**
56 - 70	1	1	1	0	**3**
TOTAL	**15**	**73**	**11**	**1**	**100**

χ TAB = 14.68 and χ CAL = 11.98 in this case 11.98<14.68 that means χ CAL < χ TAB value, therefore **H_0** is accepted which reveals primary purpose of investment is dependent age of investor.

9. Findings

- The study has found that 49% graduate with following 36% post graduate qualification of derivatives participants.
- The study reveals 71% participants are coming from income group of Rs. 1,50,000 to Rs 5,00,000 from which 40% from Rs. 1,50,000 to Rs. 3,00,000 and 31% from Rs 3,00,000 to Rs. 5,00,000 but 95% are investing less than 20% monthly income. This is showing Indians are wise savers but poor investors.
- From the survey analysis it has been found friend & relatives (57%) means existing investors are the main publicity tool for attracted the savers towards investment.
- It was found that purpose of the investor for investing into derivative market for the short term as well as long term horizon.
- From the study it was found that cash segment (89%) is preferred segment follows by future (57%) for the investment when commodity is the highly unfavorable.
- The study shows primary objective of the investor (73%) to invest is increased wealth other than retirement and children future education.
- It is found 55% investors are perceived market risk while invest in to the derivative.
- Study has found 56% investors are taking the help of research analyst to overcome the risk in financial market.
- The key finding of the study as per opinion of existing derivatives investors regarding why investors are not or less participate in derivatives which shows risk and high leverage (64%) followed by speculation, Lack of knowledge and difficulty in understanding, increase speculation and counterparty risk are main barriers.
- Survey found that 59% participants are entering in to derivatives as an investors followed by 25% speculators.
- Study found 36% participants are preferring derivatives because of participation without holding the underlying asset.
- In the study 71% participants are saying that margin amounts are barrier in entering derivatives and it should be less than Rs 10,000 in every contract size.
- In study 41% participants are preferred index options followed by 31% stock futures and 23% index futures.
- From the study it has been found that least participants are doing trade in derivatives regular base.
- In study it is very important finding that 54% participants have get acceptable return while 29% got great return from derivatives market.
- As per opinion from participants (40%), they are saying growth of the derivatives segment in India will moderately.

Findings from the Hypothesis & Chi Square

- Study has found less than 50% investors prefer derivatives due to fast return means investors are preferring derivatives other than fast return like hedging, without holding securities, etc.
- more than 50% of investor believes that market risk is one of the major factors in the market
- 38% of investors in derivatives are graduate or more qualified

- Age and household income for investment are dependent on each other
- Age and purpose of the investment in investment is dependent each other

10. Suggestions

- During research researchers have found maximum investors who deal with the derivatives market are lacking of the mechanism of the derivative hedging theory. So, it will be better if concerned investment organisations and SEBI should make such kind of technical program which gives the whole knowledge about derivative market like money control virtual game for the equity share.
- Financial derivative market is very good option for the investor who regularly trading with strict stop loss. Future is providing best alternate who wants to purchase underlying asset in lots.
- From the findings researchers come to know that the respondents want to use derivative products mainly for the investment purpose. But the application for the derivative product is mainly for the hedging purpose. So, this thing is bringing the concentration of regulatory body (SEBI). Those who are not participating in derivatives because of lack of knowledge of the application and practical knowledge of the different derivative products. In this case investment companies and SEBI should enhance the knowledge of products and applications with strategies for better growth of financial market.
- Derivative market is such that the participants can hedge their risk easily and effectively without market risk and operation risk with higher leverage.

11. Conclusion

For any nation investment is the key indicator for economic development but where, when and how it is done its important. Entire world recently passed out under euro debt crisis and earlier subprime mortgage and global financial crises 2008 and 2009 respectively. And during that investors lost their capital even due to not able to hedge it and unaware about proper applications of derivatives. In Indian market most f the investors don't have enough knowledge of derivatives products and strategy, they are just follow to broker or friends and relatives which is not proper way to manage the risk. India is one of the most successful developing countries in terms of a vibrant market for derivatives. This reiterates the strengths of the modern development of India's securities markets, which are based on nationwide market access, anonymous electronic trading, and a predominantly retail market. There is an increasing sense that the equity derivatives market is playing a major role in shaping price discovery. India's experience with launch of equity derivatives market has been extremely positive, by world standards. NSE is now one of the prominent exchanges amongst all emerging markets, in terms of equity derivatives turnover.

12. References

12.1 Journals & Articles

[01] **Barents Group LLC (1997),** "Indian Capital Market: Recent Developments and Policy Issues", pp. 1-28, available at *http://pdf.usaid.gov/pdf_docs/PNACB522.pdf* (23/12/2010)

[02] **R. Dixon and R.K. Bhandari (1997),** "Derivatives, risk and regulation: chaos or confidence?" International journal of Bank Marketing, Vol. 15 Issue 3, pp. 91-98

[03] **Patrick McAllister and John R. Mansfield (1998),** "Investment Property Portfolio Management and Financial Derivatives: Paper 2", Property Management, Vol. 16, Issue 4, pp.208-213.

[04] **P. M. Deleep Kumar and G. Raju (2001),** "Indian Capital Market: a retrospect", pp. 1-11, available at *www.icwai.org/icwai/knowledgebank/fm28.pdf* (7/12/2010)

[05] **Peter Carr and Dilip Madan (2001),** "Optimal positioning in derivative securities", Quantitative Finance, Vol. 1, pp. 19–37

[06] **Warren Buffet (2002),** "Warren Buffet on Derivatives", pp. 1-2, available at *http://www.fintools.com/docs/WarrenBuffetonDerivatives.pdf* (20/04/2011)

12.2 Reports

[01] **Economic Survey (2009-10),** "Financial Intermediation and Market", Chap. 5, pp. 107-118

[02] **Fact books (2000-11)** published by NSE available *at www.nseindia.com*

[03] **Handbook (2008),** "Handbook on Capital Market Regulation, published by SEBI

[04] **Handbook (2009 & 2010),** "Handbook of Statistics on the Indian Securities Market", SEBI

[05] **Handbook (09-10 & 10-11),** "Handbook of Statistics on the Indian Economy", RBI

[06] **Hong Kong Exchanges and Clearing Ltd. (2002),** "Derivatives Retail Investor Survey 2001/02 Report", pp. 1-17, available at www.hkex.com.hk/eng/stat/research/Documents/dris01_e.pdf (20/04/2011)

[07] **ISMR (2000-11),** "Indian Securities Market- A Review", National Stock Exchange, Volume III to XIV available at *www.nseindia.com*

[08] **NCAER Report (2011),** "How Households Save and Invest: Evidence from NCAER Household Survey", National Council of Applied Economic Research

12.3 Books

[01] **Anil Agashe (2010),** "Financial Services, Markets and Regulations", 1st edition republished, published by Himalaya Publishing House, Mumbai

[02] Frank J. Fabozzi & Franco Modigliani (2007), "Capital Markets: Institutions and Instruments", 3rd edition, published by Prentice-Hall India, New Delhi

[03] N Gopalsamy (2007), "Capital Market: The Indian Financial Scene", 1st edition republished, published by Macmillan India Ltd., Delhi

[04] Vasant Desai (2008), "Fundamentals of the Indian Financial System: New Challenges, New Initiatives", 6th edition, published by Himalaya Publishing House, Mumbai

[05] V.A. Avadhani (2009), "Financial Services in India", 1st edition, published by Himalaya Publishing House, Mumbai