

A STUDY OF INVESTOR PREFERENCE TOWARDS EQUITY AND DERIVATIVES

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ABSTRACT:

The study was undertaken to know the investor preference of future and equity (cash) market. The findings reveal that the investors were satisfied with the service provided by Share khan Securities. Most of the investor prefer cash market because lack of knowledge about the derivative market. But still it is suggested that the investor should have thorough knowledge before making investment in share market.

INTRODUCTION

Capital market is the market for the mobilization of long-term funds. It refers to "the activity of mobilizing resource from the abundance sector and canalizing the same to the scarce sector". Capital market is concerned with rising of capital for the industrial activities. The Indian capital market can be broadly classified into gilt-edged market and industrial securities market. Gilt-edged market deals with government and non-governmental securities backed by RBI whereas; the industrial securities market deals with shares and debentures of companies. The industrial securities market can be further classified into primary and secondary market. Primary market is concerned with the issues of equity shares, preferred stock, debentures of non-governmental, public limited companies. Secondary market is concerned with the trading of already issued securities. These securities are traded in an organized market called as stock exchange. Stock exchange means "any body or individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities". Before independence, the capital market was not developed due to poor industrial growth. Only very few companies existed, and hence the number of securities traded was smaller. There were only few individual investors who belonged to affluent class. Moreover, there were no specialized issue houses and no intermediaries to mobilize and canalize the savings. But after the independence, the capital market has broadened significantly and has been steadily improving. The government has also taken a number of steps to promote savings and to protect the interest of the investors.

OBJECTIVES OF THE STUDY

- To study the preference of investors on equity shares and derivative instruments.
- To find the level of awareness and satisfaction of investors towards equity and derivative instruments,
- To identify the drawback associated in both markets.
- To find the risk and return element involved in equity and derivative market.

RESEARCH METHODOLOGY

This study consists of 100 samples, which are collected from the investors of Share khan Securities limited. Nagpur. The data set include, Primary data were collected through interview method using a structured questionnaire and Secondary data were collected from previous records, reference books, company records and internet. The data collected through the various sources was converted into readable data and was tabulated and analyzed for logical status using appropriate statistical method. In this study, simple percentage analysis, chi-square test, ANOVA, paired t-test has been employed to interpret. Necessary hypothesis framed and analyzed through this statistical tools.

Data Analysis

Table 1: Profile of respondents

S. No.		Respondents	%
1	Gender		
	Male	82	82
	Female	18	18
2	Age of the investors (in years)		
	Under 25	12	12
	25-34	51	51
	35-44	26	26
	45 and above	11	11
3.	Qualification		
	SSLC	11	11
	HSC	27	27
	Graduate	32	32
	Post Graduate	24	24
	Others	6	6
4.	Occupation of the Investors		
	Business	50	50
	Professional	20	20
	House Wife	10	10
	Service	20	20

Around 82% of the respondents belong to male category and 18% of the respondents belong to female category. 12% of the respondents belong to the age group of less than 25 Years. Around 51% of the respondents belong to the age group of 25-34 year and 26% of the respondents belong to the age group of 35-44 years. 11% of the respondents belong to the age group of 45 and above.

11% of the respondents belong to SSLC Qualification. Around 27% of the respondents belong to HSC. 32% of the respondents are Graduate and 24% of the respondents are PG. 6% of the respondents belong to other category.

Around 50% of the respondents belong to the Business. Around 20% of the respondents are Professional and 10% of the respondents are Housewives. 20% of the respondents belong to the Service Category.

Around 34% of the respondents' monthly income is less than 10000 and 45% of the respondents' income ranges from 10000-20000. Around 18% of the respondents' income ranges from 20000-30000 and 3% of the respondents' income ranges from 30000 and above.

Around 51% of the respondents make investment decision through their friends/relatives and 29% of them from agents. Around 12% of the respondents make decision through advertisement and 8% of the respondents make decision from others.

Around 48% of the respondents get investment information through self and 14% of the respondents get from relatives and friends. Around 6% of the respondents get information through advertisement and 32% of the respondents get information from share brokers.

Around 27% of the respondents preferred primary market (IPO) to invest and 73% of the respondents preferred secondary market to invest.

Around 47% of the respondents preferred A category share for investment and 50% of the respondents preferred B category share for investment and 3% of them preferred D category share for investment.

17% of the respondents hold the script for short term and around 54% of the respondents hold for mid term and 29% of the respondents hold the script for long term.

Around 34% of the respondents preferred future market and 66% of the respondents preferred cash market for investment.

Around 86% of the respondents feel future market trading is riskier and 14% of the respondents feel cash market trading is riskier.

Around 86% of the respondents preferred future market for high returns and 14% of the respondents preferred cash market for getting high returns. 5% of the respondents feel intraday is safer and around 95% of the respondents feel delivery is safer to trade.

It is clear that 20% of the respondents strongly agree for the statement and 63% of the respondents agree for the statement and 11% of the respondents feel undecided. Around 4% of respondents disagree the statement and 2% of the respondents strongly disagree the statement.

It reveals that 16% of the respondents feel fluctuations affect the future market and 7% of the respondents feel fluctuations affect the cash market and around 77% of the respondents feel fluctuation affect both the market.

It reveals that 20% of the respondents belong to 50-50 ratio of investment and 33% of the respondents belong to 40-60 ratio and 47% of the respondents belong to 75-25 ratio of investment.

It reveals that 94% of the respondents are aware of risk involved in future market and 6% are not aware of risk involved in future market.

It is clear that 6% of the respondents strongly agree the benefit of intraday transaction and around 15% agree the statement and 2% of the respondents feel undecided. Around 49% of the respondents disagree for the statement and 28% of the respondents strongly disagree for the statement.

91% of the respondents feel minimizing the lot size is benefit for trading and 9% of the respondents feel minimizing the lot size is not benefit for trading.

89% of the respondents feel margin funding is helpful share trading and 11% of the respondents feel margin funding is not helpful in share trading.

24% of the respondents feel major problem is low return of profit and 36% of the respondents feel selection of script is major problem and 40% of the respondents feel both are major problems in equity market.

34% of the respondents feel heavy loss is major problem in future market and 32% of the respondents feel restricted margin limit is major problem in this market and 34% of the respondents feel both are major problems in future market.

38% of the respondents feel major drawback in share market is market fluctuation and 30% of the respondents feel sector selection is major drawback and 32% of the respondents feel government policy is major drawback in share trading.

61% of the respondents feel government policy is favorable for short term investors and 39% of the respondents feel government policy is unfavorable for short term investors.

TEST OF HYPOTHESES

Hypothesis 1: To test the relationship between monthly income and term of investment, the following hypothesis is formulated:

Ho: There is no relationship between monthly income and term of investment.

Ha: There is relationship between monthly income and term of investment.

As per the data in Table 2, the calculated Chi square value (5.51) is less than the table value (12.592), the Null Hypothesis is accepted. We can conclude that there is no relationship between the Monthly Income of the customer and Terms of Investment.

Table 2: Relationship between monthly income and terms of investment

Monthly income	Short-term	Medium-term	Long-term	Total
<than 10,000	8	17	9	34
10,000-20,000	5	28	12	45
20,000-30,000	4	8	6	18
30,000 and above	0	1	2	3
Total	17	54	29	100

Hypothesis-II: To study the relationship between occupation and investment decision, the following hypothesis is formulated and tested:

Ho: There is no relationship between occupation and investment decision.

Ha: There is relationship between occupation and investment decision.

As per the Table 3, the calculated Chi square value (12.036) is less than the table value (16.919). So Null Hypothesis is accepted. We can conclude that there is a no relationship between the Occupation of the customer and Investment Decision.

Table 3: Relationship between occupation and investment decision

Occupation	Friends/ Relatives	Agents	Advert.	Others	Total
Business	29	14	4	3	50
Professionals	7	4	6	3	20
Housewife	5	4	1	0	10
Service	10	7	1	2	20
Total	51	29	12	8	100

Hypothesis III: To test the significant difference in mean of the three samples, the following hypothesis was formulated and tested:

Ho: there is no significant difference in mean of the three samples.

Ha: there is significant difference in mean of the three samples

Since the calculated value of F (2.19) is less than Table value of $F_{0.05}$ (4.26), the null hypothesis is accepted. Hence there is no significant difference in the Means of the three given sample.

Table 4: Significant difference in mean of the three samples

Less than 10,000		10000-20000	20000-30000	30000 and Above
50-50	4	10	6	0
40-60	10	15	6	2
75-25	20	20	6	1
	XI	X2	X3	
	4	10	20	
	10	15	20	
	6	6	6	
	0	2	1	

Hypothesis IV: To test the relationship between age and margin funding in share trading, the following hypothesis was formulated and tested by using t statistics.

Ho: There is no relationship between age of the customer and margin funding in share trading.

Ha: There is relationship between age of the customer and margin funding in share trading.

Table 5: Relationship between age of the customer and margin funding in share trading

	Yes	No
Under 25	12	0
25-34	44	7
35-44	22	4
45 & above	11	0

As the calculated t value (3.23) is greater than, the table value (2.35). So Null Hypothesis is rejected. We can conclude that there is a relationship between the age of the customer and Margin funding in share trading.

CONCLUSION

The overall conclusion that emerges out from this study is that the most of the investor are aware of high risk involved in the derivative market. To reduce the risk in the market, the investors should strictly follow the stop loss method. The study reveals that most of the investor prefer cash market where the script can be held for long term and the risk is less and it is transferable to others with minimal time period. Even though risk is higher, some investors prefer derivative market where return is also higher. The investors are suggested that before going for investment proper study about the script is essential. The study has highlighted a few suggestions for removing constrain in the crucial variables which directly affect the investor and company. The

investors are highly satisfied with equity shares because of many reasons, i.e., liquidity, low investment, capital appreciation etc.

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