

*A study on Investors Preferences towards various investment avenues in
Capital Market with special reference to Derivatives*

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Introduction:

In India, generally all capital market investment avenues are perceived to be risky by the investors. But the younger generation investors are willing to invest in capital market instruments and that too very highly in Derivatives segment. Even though the knowledge to the investors in the Derivative segment is not adequate, they tend to take decisions with the help of the brokers or through their friends and were trying to invest in this market. This study was undertaken to find out the awareness level of various capital market instruments and also to find out their risk preference in various segments.

Need for the study:

- To educate investors who are risk averse for trade in derivatives
- Awareness about the various uses of derivatives can help investors to reduce the risk and minimize the losses

Research methodology:

OBJECTIVES OF THE STUDY:

PRIMARY OBJECTIVE

- To Study the various investment avenues and the investors risk preference towards it.

SECONDARY OBJECTIVES

- To find out the general demographic factors of the investors dealing in capital market.
- To find out the preference level of investors on various Capital Market instruments.
- To find out the type of risk which are considered by the investors
- To find out the ways through which the investors minimizes their risk

- To find out the preferences of Investors in derivatives market.

Research Design

A Research design is purely and simply the framework of plan for a study that guides the collection and analysis of data. The study is intended to find the investors preference towards cash market and derivatives. The study design is descriptive in nature.

TYPE OF RESEARCH- DESCRIPTIVE RESEARCH

Descriptive study is a fact-finding investigation with adequate interpretation. It is the simplest type of research and is more specific. Mainly designed to gather descriptive information and provides information for formulating more sophisticated studies.

Sampling Design

1. **Selection of study area:** The study area is in Hyderabad.
2. **Selection of the sample size:** 100

Sampling Methods

Convenience method of sampling is used to collect the data from the respondents. Researchers or field workers have the freedom to choose whomever they find, thus the name “convenience”. About 100 samples were collected from Hyderabad city and most of the respondents were customers coming in to stock broker’s office and certain addresses were collected from reputed brokers.

Formulation of the questionnaire

Data collection

- (a) Primary data – collected through Structured Questionnaire.
- (b) Secondary data – Earlier records from journals, magazines and other sources.

Tools used for analysis

Percentage analysis

1. Chi-square test
2. Kendall test
3. ANOVA
4. Correlation Analysis

5. Multiple Response Table

Investment		N	Mean Value	Std. Dev	Source	Sum of Squares	df	Mean Square	F Value	P
Income	Below 25000	35	296.74	20.376	Between Groups	3947.668	3	1315.889	3.118*	0.026
	25001-50000	46	299.01	20.784						
	50001-75000	10	306.36	20.105	Within Groups	200910.998	476	1315.889		
	75001-100000	9	305.63	17.205						
	Total	100	300.17	20.680						
Employment Status	Private Employee	46	300.71	22.225	Between Groups	13227.389	4	3306.847	8.197**	0.000
	Government Employee	9	312.95	21.208						
	Own Business	6	291.42	19.169	Within Groups	191631.277	475	403.434		
	Student	29	295.51	17.934						
	Home maker	10	305.02	13.527						
	Total	100	300.17	20.680						

* Significant at 5 percent level ** Significant at 1 percent level

LIMITATIONS OF THE STUDY

- Understanding the nature of the risk is not adequate unless the investor or analyst is capable of expressing it in some quantitative terms. Expressing the risk of a stock in quantitative terms makes it comparable with other stocks.
- Measurement cannot be assured of cent percent accuracy because risk is caused by numerous factors such as social, political, economic and managerial efficiency.
- Time was a limiting factor.
- Only those investors who deal in capital markets are considered.
- Respondent’s bias was another limiting factor.

SUMMARY OF FINDINGS:

1. Most of the respondents (44%) are of the age group 31-40.
2. Majority of the respondents (65%) are male.
3. Most of the respondents (38%) are graduates followed by Post graduates.

4. Most of the respondents (29%) are entrepreneurs and Working Executives.
5. Most of the respondents (38%) are having an Income level of 1- 5lacs followed by respondents having income level 5-10 lacs.
6. Most of the respondents (40%) are influenced by friends and relatives followed by brokers.
7. Most of them (29%) are highly favourable towards the cash market.
8. Most of them (30%) are highly favourable towards the Futures market.
9. Most of them (26%) are favourable towards the Options market.
10. Most of them (30%) stayed neutral towards the Commodities market.
11. Majority of the respondents (37%) wanted to invest in short term funds followed by both short term and long term funds.
12. Majority of the respondents (36%) preferred wealth maximization instruments followed by steady growth instruments.
13. Most of them (43%) invested about 5-10% of their income on investments and only 9% invested more than 20% of their income on investments.
14. Respondents perceived that Market Risk and Credit risk are the two major risk observed in capital markets.
15. Most of the respondents (82%) wanted to minimize their risk involved in the capital market.
16. Most of the respondents (49%) said that News Papers and Financial Experts help them to minimize their risk.
17. Most of the respondents (63%) said that high Margin charged was their main barrier while dealing in Derivatives market.
18. Most of the respondents (38%) feel that the margin amount charged in derivatives market should be in between 5000-10000 and if it is less than 5000, they are very much happy..
19. From Correlation test , it is found there exist a negative correlation between the income percentage on investment and the participation in derivative market
20. From One Way ANOVA it is found that there is significant difference between the annual income and the income percentage towards investment.

21. From the Multiple Response test, it is found that the investors who invest around 5-10% of their investment mostly considers the market risk(18%) as the major risk which prevails in the market.
22. From the Multiple Response test, it is found that the investors whose investment is around 10% of their income, consider that the affordable margin amount for investment in Derivatives is up to Rs10000/-.

CONCLUSION

In the current scenario, investing in stock markets is a major challenge ever for professionals. Derivatives acts as a major tool for reducing the risk involved in investing in stock markets for getting the best results out of it. The investors should be aware of the various hedging and speculation strategies, which can be used for reducing their risk. Awareness about the various uses of derivatives can help investors to reduce risk and increase profits. Though the stock market is subjected to high risk, by using derivatives the loss can be minimized to an extent.

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