

INVESTORS ATTITUDE TOWARDS RISK AND RETURN CONTENT IN EQUITY AND DERIVATIVES

S. Saravanakumar,

Research Scholar, Anna University of Technology, Coimbatore
Assistant Professor /MBA,
JKK Nataraja College of Engineering & Technology,
Komarapalayam, Namakkal-638 183, Tamilnadu, India

S. Gunasekaran,

Research Scholar, Anna University of Technology, Coimbatore
Assistant Professor /MBA,
JKK Nataraja College of Engineering & Technology,
Komarapalayam, Namakkal-638 183, Tamilnadu, India.

R. Aarthy

Faculty /MBA,
JKK Nataraja College of Engineering & Technology,
Komarapalayam, Namakkal-638 183, Tamilnadu, India

ABSTRACT

The study was undertaken to know the investors attitude towards risk and return content in equity and derivative security and to predict which will be more profitable to them. The research design used in this project is descriptive research design. The sampling technique adopted is simple random sampling and the sample size of 100 investors was selected for the study. Structured interview schedule was prepared for conducting the survey. Primary data is collected through interview schedule and secondary data is collected through company manuals and website. The data collected is then classified, tabulated, and the analyzed using statistical tools such as Simple Percentage and Chi-Square and Weighted Average. 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.

Keywords : Capital Market, Equity shares, Futures, Options, Equity Market, Derivatives Market, Investors Satisfaction.

1. INTRODUCTION

Market critics often quote changes in investors' attitude towards risk and return as a possible explanation for swings in security prices. Certainly, incidents of financial chaos coincide with subjective evidence of unexpected shifts in market sentiment from risk tolerance to risk avoidance. While these shifts may be potentially driven by changes in the fundamental outlook of individual investors towards risk, they are more likely to reflect the effective risk attitude as manifested through the behavior of currently active investors. In particular, behavior similar to that induced by shifts in the fundamental preferences of investors over risk and return can also reflect changes in the composition of active market players or strategic trading patterns, induced by the interaction of prevailing market conditions with institutional features. Tools that track the dynamics of investors' willingness to take risks can lead to a better understanding of the functioning of financial markets. In India, the financial market system is equipped with capital market and money market. The investors are provided wide range of investment avenue in both the markets. Money market provides short-term securities with a maximum maturity period of one year. The risk and return component is lessor than that of long-term securities offered by the capital market. Money market contains only debt instruments, whereas capital market offers both debt and ownership securities. In ownership securities the risk and return component is much higher than the prevailing investment avenues in India. The upswing in capital market allows the investors to harvest handsome return in their investments, but day-trader in stock market hard to take advantage in bullish and bearish market conditions by holding long or short positions. Now the derivative instruments like, futures, options, swaps offer them to hedge against the adverse conditions in the stock market. In particular, derivatives can contribute not only to more effective risk management from the point of view of individual investors, but also to improve monitoring of market conditions by policymakers in the country.

2. REVIEW OF LITERATURE

Patrick and Mansfield (1980) studied on derivatives has been an expanding and controversial feature of the financial markets. 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. Dixon and Bhandari (1995) said that there has been an extraordinary increase in the use of financial derivatives in the capital markets. Consequently derivative instruments can have a significant impact on financial institutions, individual investors and even national economies. This relatively recent change in the status of derivatives has led to calls for regulation. Using derivatives to hedge against risk carries in itself a new risk was brought sharply into focus by the collapse of Barings Bank. The principal concerns of regulators about how legislation may meet those concerns are the subject of current debate between the finance industry and the regulators. Srinivasan, R (1997) recommendations have been made and reviewed by some of the key players in the capital markets at national and global levels. 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 or international economies. Jennifer and Moehrle (2002) aims to examine how market participants changed the way they process earnings information after learning of the implementation of hedging activities.

3. OBJECTIVES OF THE STUDY

This present study is carried out with the following objectives.

- ✚ To study the fondness of investors on equity and derivative instruments.
- ✚ To find the awareness and satisfaction of investors towards equity and derivative investments.
- ✚ To identify the drawback associated in both markets.
- ✚ To find the risk and return component involved in equity and derivative market.

4. RESEARCH METHODOLOGY

The research design used in this study is descriptive. The researcher had a discussion with the customers through a structured interview. This study consists of 100 samples, which are collected from the investors in various parts of Tamilnadu. 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. Suitable hypothesis framed and analyzed to predict the preference of the investors.

5. DATA ANALYSIS

The simple percentage analysis has been adopted to analyze the worthiness of the data revealed by the respondents.

Table 1: Gender of the Investors

S.No.	GENDER	RESPONDENTS	%
1	Male	82	82
2	Female	18	18
Total		100	100

Source: Primary data

Inference: The above table shows that around 82% of the respondents are belonging to male category and the rest of the respondents are belongs to female category.

Table 2: Age of the Investors

No.	AGE	RESPONDENTS	%
1	Under 25	12	12
2	25-34	51	51
3	35-44	26	26
4	45 and above	11	11
Total		100	100

Source: Primary data

Inference: The above table shows that 12% of the respondents are belong to the age group of less than 25 Years. 51% of the respondents are belongs to the age group of 25-34 year and 26% of the respondents are

belong to the age group of 35-44 years. 11% of the respondents are belongs to the age group of 45 and above.

Table 3: Qualification of the Investors

No.	QUALIFICATION	RESPONDENTS	%
1	SSLC	11	11
2	HSC	27	27
3	Graduate	32	32
4	Post Graduate	24	24
5	Others	6	6
Total		100	100

Source: Primary data

Inference: The above table shows that 11% of the respondents are belong to SSLC qualification. Around 27% of the respondents are to HSC and 32% of the respondents are graduate and 24% of the respondents are belong to post graduate. The remaining 6% of the respondents belong to other category.

Table 4: Occupation of the Investors

No.	OCCUPATION	RESPONDENTS	%
1	Business	50	50
2	Professional	20	20
3	House Wife	10	10
4	Service	20	20
Total		100	100

Source: Primary data

Inference: The above table reveals that 50% of the respondents belong to the business. Around 20% of the respondents are professional and 10% of the respondents are housewife. 20% of the respondents belong to the service category.

Table 5: Monthly Income of the Investors

No.	MONTHLY INCOME	RESPONDENTS	%
1	< than 10000	34	34
2	10000-20000	45	45
3	20000-30000	18	18
4	30000 and above	3	3
Total		100	100

Source: Primary data

Inference: The above table interprets that around 34% of the respondents monthly income is less than 10000 and 45% of the respondents income ranges from 10000-20000. 18% of the respondents income ranges from 20000-30000 and 3% of the respondent's income ranges from 30000 and above.

Table 6: Investors opinion about Investment Decision

No.	OPINION	RESPONDENTS	%
1	Friends/Relatives	51	51
2	Agents	29	29
3	Advertisement	12	12
4	Others	8	8
Total		100	100

Source: Primary data

Inference: It is inferred from the above table, 51% of the respondents are making 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.

Table 7: Source of Investment Information

S.No.	OPINION	RESPONDENTS	%
1	Self	48	48
2	Relatives & Friends	14	14
3	Advertisement	6	6
4	Share Brokers	32	32
Total		100	100

Source: Primary data

Inference: The above table shows that nearly 48% of the respondents get investment information through their own effort and 14% of the respondents got information from relatives and friends. A slight share of 6% of the respondents got information through advertisement and 32% of the respondents got information from share brokers.

Table 8: Table showing Investors opinion about type of market preferred

No.	OPINION	RESPONDENTS	%
1	Primary Market (IPO)	27	27
2	Secondary Market	73	73
Total		100	100

Source: Primary data

Inference: The above table discloses that about 27% of the respondents are preferred to invest in initial public offering and 73% of the respondents are preferred to invest in secondary market.

Table 9: Table showing the detail about category of shares preferred by investors

S.No.	OPINION	RESPONDENTS	%
1	A Category	47	47
2	B Category	50	50
3	D Category	3	3
Total		100	100

Source: Primary data

Inference: The above table clears that 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.

Table 10: Table showing the detail about Investors opinion to hold the script

No.	OPINION	RESPONDENTS	%
1	Short Term	17	17
2	Mid Term	54	54
3	Long Term	29	29
Total		100	100

Source: Primary data

Inference: It is clear from the above table, 17% of the respondents hold the script for short term and around 54% of the respondents hold for medium term and 29% of the respondents hold the script for long-term.

Table 11: Table showing Investors opinion regarding the Investment type

No.	OPINION	RESPONDENTS	%
1	Future Market	34	34
2	Cash Market	66	66
Total		100	100

Source: Primary data

Inference: From the above table it is clear that around 34% of the respondents preferred to invest in future market and 66% of the respondents preferred to invest in cash market.

Table 12: Table showing the details about type of market where the risk is higher

S.No.	OPINION	RESPONDENTS	%
1	Future Market	86	86
2	Cash Market	14	14
Total		100	100

Source: Primary data

Inference: From the above table it is observed that around 86% of the respondents feel future market trading is riskier and 14% of the respondents feel cash market trading is riskier.

Table 13: Table showing the details about type of market where the return is higher

S.No.	OPINION	RESPONDENTS	%
1	Future Market	86	86
2	Cash Market	14	14
Total		100	100

Source: Primary data

Inference: The above table interpret that around 86% of the respondents are preferred future market for high returns and 14% of the respondents are preferred cash market for getting high returns.

Table 14: Table showing the details about kind of trading where the investors feel safer to trade

S.No.	OPINION	RESPONDENTS	%
1	Intraday	5	5
2	Delivery	95	95
Total		100	100

Source: Primary data

Inference: The above table interpret that 5% of the respondents assumes intraday is safer and around 95% of the respondents feel delivery is safer to trade.

Table 15: Table showing Investors opinion about Profit and Risk is less in cash market

S.No.	OPINION	RESPONDENTS	%
1	Strongly Agree	20	20
2	Agree	63	63
3	Undecided	11	11
4	Disagree	4	4
5	Strongly disagree	2	2
Total		100	100

Source: Primary data

Inference: From the above table it is clear that 20% of the respondents are strongly agree for the statement and 63% of the respondents are agree for the statement and 11% of the respondents are feel undecided. Around 4% of respondents dis-agreed the statement and 2% of the respondents are strongly dis-agreed the statement.

Table 16: Table showing the detail about the segments where fluctuation affects the investors

No.	OPINION	RESPONDENTS	%
1	Future Market	16	16
2	Cash Market	7	7
3	Both	77	77
Total		100	100

Source: Primary data

Inference: From the above table reveals that 16% of the respondents are feel fluctuations affect the future market and 7% of the respondents are feel fluctuations affect the cash market and around 77% of the respondents are feel fluctuation affect both the market.

Table 17: Table showing the detail about ratio of investment in Cash and Future Market

S.No.	OPINION	RESPONDENTS	%
1	50-50	20	20
2	40-60	33	33
3	75-25	47	47
Total		100	100

Source: Primary data

Inference: The above table reveals that 20% of the respondents are belong to 50-50 ratio of investment and 33% of the respondents are belong to 40-60 ratio and 47% of the respondents are belong to 75-25 ratio of investment.

Table 18: Table showing the details about customer awareness of risk involved in Future Market

S.No.	OPINION	RESPONDENTS	%
1	Yes	94	94
2	No	6	6
Total		100	100

Source: Primary data

Inference: From the above table 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.

Table 19: Table showing the detail about benefit of Intraday Transaction

NO.	OPINION	RESPONDENTS	%
1	Strongly Agree	6	6
2	Agree	15	15
3	Undecided	2	2
4	Disagree	49	49
5	Strongly disagree	28	28
Total		100	100

Source: Primary data

Inference: The above table divulges that 6% of the respondents strongly agree the benefit of intraday transaction and 15% of the respondents agree the statement and 2% of the respondents are discloses their statement as undecided. Around 49% of the respondents are dis-agreeing for the statement and 28% of the respondents strongly dis-agreed the statement.

6. TEST OF HYPOTHESIS

6.1. RELATIONSHIP BETWEEN MONTHLY INCOME AND TERM OF INVESTMENT

H₀: There is no relationship between monthly income and term of investment.

H₁: There is relationship between monthly income and term of investment.

TABLE 26- Relationship between Monthly Income and Terms of Investment

Monthly income	Short-term	Medium-term	Long-term	Total
Less 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

Total i.e. = $\sum (O_i - E_i)^2 / E_i$

Calculated Value = 5.51, Degree of Freedom = (r-1) (c-1) = (4-1) (3-1) = 6, then the Table value for 5% level of significance is 12.592. As the calculated value (5.51) is less than the table value (12.592). So Null Hypothesis is accepted. We can conclude that there is no relationship between the Monthly Income of the customer and Terms of Investment.

6.2. TEST OF HYPOTHESIS-II: RELATIONSHIP BETWEEN OCCUPATION AND INVESTMENT DECISION

H₀: There is no relationship between occupation and investment decision.

H₁: There is relationship between occupation and investment decision.

TABLE 27- Relationship between occupation and investment decision.

Occupation	Friends/Relatives	Agents	Invert.	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

Total i.e. = $\sum (O_i - E_i)^2 / E_i$

Calculated Value = 12.036, Degree of Freedom = (r-1) (c-1) = (4-1) (4-1) = 9, the Table Value is 16.919. As the calculated 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.

6.3. SIGNIFICANT DIFFERENCE IN MEAN OF THE THREE SAMPLES

H₀: There is no significant difference in mean of the three samples.

H₁: There is significant difference in mean of the three samples.

TABLE 28: significant difference in mean of the three samples

	less than 10,000	0000-20000	20000-30000	000 and Above
50 - 50	4	10	6	0
40 - 60	10	15	6	2
75 - 25	20	20	6	1

X1	X2	X3
4	10	20
10	15	20
6	6	6
0	2	1

$$\bar{x}_1 = 20 / 4 = 5, \quad \bar{x}_2 = 33 / 4 = 8.25, \quad \bar{x}_3 = 47 / 3 = 15.67$$

$$\bar{x} = 5 + 8.25 + 15.67 / 3 = 9.64$$

$(\bar{x}_1 - \bar{x})^2$ $(5 - 9.64)^2$	$(\bar{x}_2 - \bar{x})^2$ $(8.25 - 9.64)^2$	$(\bar{x}_3 - \bar{x})^2$ $(15.67 - 9.64)^2$
21.53	1.93	36.36
21.53	1.93	36.36
21.53	1.93	36.36
21.53	1.93	36.36
Sum = 86.12	Sum = 7.72	Sum = 145.44

Sum of squares between samples,
 $= 86.12 + 7.72 + 145.44 = 239.28$

TABLE 29: Calculation of ANOVA (Difference in mean of the three samples)

x1	$(x_1 - \bar{x}_1)^2$	2	$(x_2 - \bar{x}_2)^2$	3	$(x_3 - \bar{x}_3)^2$
4	1	0	3.06	0	18.75
10	25	5	45.56	0	18.75
6	1	6	5.06	6	93.51
0	25	2	39.06	1	215.21
	Sum = 52		Sum = 92.74		Sum = 346.22

Sum of squares within samples,
 $= 52 + 92.74 + 346.22 = 490.96$

Sum of square for total,
 $= 239.29 + 490.96 = 730.25$

Source of Variance	Sum of square	V	Mean Square
SS between	239.29	2	119.65
SS within	490.96	9	54.55

$F = 119.65 / 54.55 = 2.19$

$V_1 = 2, V_2 = 9, \alpha = 5\%, \text{ Table Value} = 4.26$

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

6.4. RELATIONSHIP BETWEEN AGE AND MARGIN FUNDING IN SHARE TRADING

H₀: There is no relationship between age of the customer and margin funding in share trading.

H₁: There is relationship between age of the customer and margin funding in share trading.

TABLE 30: 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

TABLE 31: Calculation of t-test (age of the customer & margin funding)

X	Y	D = (X-Y)	D ²
12	0	12	144
44	7	37	1369
22	4	18	324
11	0	11	121
		∑D= 78	∑D²=1958

$$\begin{aligned} \bar{D} &= \sum D / n \\ &= 78 / 4 \\ &= 19.5 \\ \sigma &= \sqrt{\sum D^2 - (\bar{D})^2 \times n / n - 1} \\ &= \sqrt{1958 - (19.5)^2 \times 4 / 4 - 1} \\ &= 12.07 \\ t &= 19.5 - 0 / 12.07 / \sqrt{4} \\ &= 3.23 \end{aligned}$$

Degree of Freedom = 4-1 = 3, Significant Level = 5%

As the calculated 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.

7. 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 reveal that most of the investor prefer cash market were the script can be hold 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 were 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 conclusion of the study along with fruitful findings are included, if rightly perceived and perfectly implemented may enhance return by reducing their risk. The investors are highly satisfied with equity shares because of many reasons, i.e., liquidity, low investment, capital appreciation and hedge against inflation.

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