



# The Relationship between Awareness and Retail Investors' Investment Intentions in the Derivatives Market

Cirappa I B, Tejashwini K C

**Abstract:** *The Indian derivatives market remains small despite a lengthy history, several committee recommendations, and continuous developments. The Indian derivatives market is dominated by institutional investors, with little participation from individual investors due to a lack of awareness and comprehension of the product. As a result, the objectives of this research are to establish the level of retail investor derivatives market awareness, as well as the relationship between awareness and derivatives market investment intention. A questionnaire-based survey is being conducted with a sample size of 30 respondents. The findings of the survey demonstrate that the majority of respondents have either average or below average derivatives market awareness, and that there is a strong link between awareness and derivatives market investment intention.*

**Keywords:** *Derivatives Market, Awareness Level, Investment Intention*

## I. INTRODUCTION

Derivatives are contracts whose value is based on the value of an underlying asset or group of assets. Stocks, bonds, currencies, commodities, and market indices are all common assets. The underlying assets' value fluctuates in response to market conditions. Entering into derivative contracts is based on the idea of making money by speculating on the value of the underlying asset in the future. Consider the possibility that the market price of an equity share will rise or fall. A decrease in the value of your stock could result in a loss. You can enter a derivative contract in this case to generate gains by placing an appropriate bet. Alternatively, you might simply protect yourself from losses in the spot market where the stock is traded. Aside from profit, there are a number of other reasons why derivative contracts are used. The following are a few of them as Arbitrage advantage that is buying a commodity or investment at a cheap price in one market and selling it at a high price in another market is known as arbitrage trading and benefitted from the differential in commodity prices between the two marketplaces in this manner.

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Market volatility protection is if the price of an asset fluctuates, your chances of losing money increase. You can use the derivatives market to find products that will help you protect yourself against a drop in the price of the equities you hold. In the case of equities that you want to acquire, you can also buy goods to protect against a price increase. Some people use derivatives to move risk and park their extra funds. Others, on the other hand, use it to speculate and profit. Retail investors can profit from price swings without selling the underlying shares in this way.

## II. REVIEW OF LITERATURE

**Dr. Shaik Abdul Majeed Pasha [1]** In their article, they studied as Indian financial market changes from last two decades rapidly. The introduction of derivatives brought several significant changes to provide safety for hedging in the most cost-efficient way against market risk. First, the investors were afraid because how to operate with the derivatives when it was introduced. A researcher made an attempt to know that what kind of perception had by retail investors in India. In Andhra Pradesh, survey was conducted among 500 sample size of respondents during 2012. In this article, ten misconceptions are explored for the study such as derivatives are new, complex, high-tech financial products-Risks associated with financial derivatives are new and unknown-Derivatives trading unsafe and risky, etc. This article, main focus was only on futures and options, demystify on the myths about financial derivatives and risk-hedging weapon. The main research gap identified is the further researcher need to concentrate on Swaps and Forwards. So, a derivative is a proven instrument to break the risk in the component pieces and manage those components independently.

**Mrs. E.V.P.A.S Pallavi and Dr. T. Kama Raju [2]** In their research article, the retail investors and institutional investors both play a significant role in the field of investment avenue especially in derivatives market. The retail investors' participation was more rather than institutional investors that are 52% of the investors were participated in derivatives market. The data was collected through structured **questionnaire** with consisting of close-ended questions. The statistical tools used like percentage analysis, chi-square and F-test. The study was restricted to Visakhapatnam district based on using convenience sampling. The future researcher can explore their study as by considering different variables like behavioral study, demographic factors, etc.



**Dr. Rishi Manrai [3]** In their article, the trading on derivatives to hedge their positions against their physical stock was increased, studies reveals that though developing countries have realized the importance of derivative market, still in depth studies in this field are few, which leads to lack of knowledge on part of retail investors because of its complexities and relatively high initial investment. There is a need to grab more attention of the investors towards derivative market and draw inferences from investor's behavior. The investment options preferred by retail investors, investor attitude and perception towards derivative market, gauge the significance of derivative market as an option by the retail investor in North India. The data was collected from 1000 respondents from north India with the help of active stock brokers through using of choice-based sampling. The concept of behavioral finance was not booming in the capital market, it was hard to find this concept being applied. There has been awareness about derivatives trading amongst the retail investors in India since last few years. The study was conducted in Punjab, Haryana, Delhi NCR, Himachal and Uttar Pradesh and the factors which were taken for study all are constant, there was no change. In this, the author was contributed towards the depth study about retail investors and they tried to explore the relationship between them.

**Dr. U. Raghavendra Prasad [4]** In his research paper, the researcher was highlighted on the concept of thinking of investors towards the equity derivatives through futures and options market. The main purpose of the study was to analyze the investors perception towards stock market and investigate that the preferences made by an investors towards the derivatives segment through options and futures market. The researcher collected the data based on the primary source as well as secondary source. The researcher collected the primary data through structured questionnaire and distributed to 100 investors by using of convenience sampling method in Anantapuramu district in Andhra Pradesh through applying statistical tools of Mann-Whitney U test and Kruskal-Wallis test. The researcher found in their study, the Mann Whitney U test conducted to make difference between genders based on the index preferences and the test revealed that there's no difference between based on genders while trading in index options market. The Kruskal-wallis test revealed that the index options preference not varies on the basis of age and annual income. So, the researcher concluded in their study that the investors were acts as a much as speculators in order to earn more returns in the equity derivatives and always the first choice of investors as per study was index options next stock futures, stock options and index future because of less risk and more returns. The future researchers can explore their study based on the time-line gap and in this paper, the investors' perception was restricted only to the equity derivatives and further researchers can analyze the same for other portfolios.

### III. RESEARCH GAP

From the above literatures reviewed the main focus of the above articles on the awareness, perception and behaviour of retail investors individually in the derivatives market. The

limited studies taken place by establishing the relationship between awareness and intentions towards the derivatives market by retail investors. Thus, this research paper concentrates on the establishing of the relationship between the retail investors' awareness and their intentions towards the derivatives market.

### IV. OBJECTIVES OF THE STUDY

The objectives of the study as follows:

1. To determine the awareness level of retail investors towards Derivatives market.
2. To assess the relationship between awareness and investment intention among retail investors.

### V. RESEARCH HYPOTHESIS

Following Null and Alternative Hypotheses are framed for the purpose of analysis;

H0: There is no significant relationship between awareness and investment intention towards Derivatives market.

H1: There is a significant relationship between awareness and investment intention towards Derivatives market.

### VI. SCOPE OF THE STUDY

The geographical scope of the study covers in Davangere city. For the study, the kind of a derivative instruments considered are Commodity derivatives, Financial derivatives and Currency derivatives.

### VII. RESEARCH METHODOLOGY

The research is descriptive in nature and is based on retail investors' responses. This study relies on primary and secondary data sources. The structured questionnaire survey took place between January to February 2022, to record the awareness level, and investment intentions of retail investors towards Indian Derivatives market in India. Here retail investors are the individual investors who have been investing in stock market. The parameters for the research are based on the literature reviewed and discussion with experts. The awareness of retail investors' towards derivative markets is determined in terms of general awareness and specific factors such as daily transactions of derivatives market, risk associated, kinds of derivatives etc. Mean score is calculated to analyse the results.

### VIII. SAMPLE SIZE AND SAMPLING

Since the population size is unknown, the Sample Size for this study is considered to be 30. Samples are drawn randomly from Davangere city. To measure awareness five point Likert scale is used. SPSS is used in data processing and Chi-square test is adopted to establish relationship between the variables.

IX. DATA ANALYSIS AND INTERPRETATION

Table 1: Demographic Profile of Respondents

Demographic profile		Frequency (Percent)
Gender	Male	19 (63.33)
	Female	11 (36.67)
Education	SSLC / PUC	5 (16.67)
	Graduate	11 (36.66)
	Post Graduate and above	8 (26.67)
	Professional education	6 (20)
Investment experience	Less than 1 year	13 (43.33)
	1 to 5 years	10 (33.33)
	5 to 10 years	4 (13.34)
	Above 10 years	3 (10)

Source: Survey data

Table-1 shows the demographic profile of the respondents. 63.33% of the respondents are male and 36.67% are female. Most of the respondents are Graduates (36.6%) and few with Post Graduate and Professional Educational Qualification. Most of the respondents are with investment experience of less than one year (43.33%).

Table 2: Investment made by Retail investors in Derivatives market

	Frequency	Percent
Commodity Derivatives	14	46.67
Financial Derivatives	12	40
Currency Derivatives	4	13.33
<b>Total</b>	<b>30</b>	<b>100</b>

Source: Survey data

Table-2 shows the investment made by retail investors in derivatives market that is 46.67% of the respondents invested in Commodity derivatives, 40% of the respondents invested in financial derivatives and 13.33% of the respondents invested in currency derivatives.

Table 3: Level of Awareness of Respondents towards derivatives market

Level of awareness	Very high	Above average	Average	Below average	Very low
Frequency (Percent)	10 (33.33)	9 (30)	7 (23.33)	3 (10)	1 (3.34)

Source: Survey data

Table-3 describes the level of awareness of respondents towards derivatives market. Most of the respondents have very high awareness (33.33%) towards the derivatives market. Only 30% of the respondents have above average knowledge of derivatives market. 23.33% of the respondents have average, 10% of the respondents have below average and 3.34% of respondents very low awareness about derivatives market.

Table 4: Level of Awareness of Respondents towards various aspects of derivatives Market

	Aspects	Very high	Above average	Average	Below average	Very low	Total
a	Daily transactions of Derivatives market	8	10	6	3	3	30
b	Risk associated in Derivatives market	12	9	8	1	-	30
c	Various kinds of Derivatives market	14	12	4	-	-	30
d	Direct investment in Derivatives market (Through Mobile apps)	13	12	3	2	-	30
e	Indirect investment in Derivatives market (through stock broking firms)	16	9	5	-	-	30
	Mean score	12.5	10.5	4.5	1.5	1	30

Source: Survey data

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Table-4 shows the level of awareness of respondents towards various aspects of derivatives market that is the level of awareness about derivatives market very high when it is compared with mean score 5 point Likert scale that is of 12.5, Above average mean score is 10.5, Average mean score is 4.5, Below average mean score is 1.5 and Very low with mean score of 1.

**Table 5: Investment Intention of respondents towards derivatives market**

	Investment intention	Frequency (Percent)
1	Presently Invested in Derivatives market and like to continue	13 (43.33)
2	Invested in past & Wish to invest in Future with present knowledge	12 (40)
3	Not yet invested & Wish to invest in Future if provided more knowledge	2 (6.67)
4	Invested in past & Not Wish to invest in Future	2 (6.67)
5	Do not wish to invest in derivatives market	1 (3.33)
	Total	30

Source: Survey data

Table-5 describes the investment intentions of respondents towards Derivatives market. Majority of them like to presently invested in derivatives market and like to continue (43.33%). This throws light on need for creating awareness among retail investors about derivatives market. 3.33% of respondents do not wish to invest in derivatives market and 40% of respondents wish to continue their investment in derivatives market.

**Table 6: Relationship between Awareness and Investment Intention**

	Testing	Test	Sig.	Decision
1	Categories of variables with equal probabilities	One-sample chi-square test	.045	Reject the null hypothesis

Source: Calculated through SPSS

As the above table indicates, the relationship between awareness and investment intention that is when it's been compared, as the significance value or 'p' value less than 0.5 that is 0.045 is noteworthy in terms of statistics. It provides significant evidence against the null hypothesis, as the null hypothesis has a less than 5% chance of being right (and the results are random). And statistically, if the 'p' value is less than 0.5, then the null hypothesis need to be rejected. As per the above table result, the null hypothesis is rejected, and the alternative hypothesis is accepted that is there is a significant relationship between awareness and investment intention towards Derivatives market.

### X. FINDINGS AND CONCLUSION

The study's findings reveal that there is a significant link between derivatives market awareness and investment intention. The majority of the respondents had a fair to poor understanding of the derivatives market. It was also discovered that both high and average levels of awareness of essential features of the derivatives market exist. If given more knowledge and understanding about the derivatives market, the majority of respondents had a positive investing intention. As a result, it is recommended that awareness programmes be expanded at the gross route level, with stock brokers playing an important role in this process. It was suggested that this research be expanded by using constructs and variables that can increase the creation of awareness, as well as investigating alternative causes for non-investment in the derivatives market.

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**Dr. Cirappa I B**, is an Associate Professor of Commerce department at Davangere University, where he teaches Accounting, Banking, Finance and other courses. He has published 37 International Journals, 10 National Journals, attended more than 70 international and national conferences/seminars. He has received 5 Best paper awards. He has received the Davangere University Award of Best Research Publication Award 2020 and 2021 for two years continuously. He made award of Ph.D degree for 5 candidates and presently 4 are pursuing Ph.D doctoral degree.



**Ms. Tejashwini K C**, is a Ph.D student in Commerce department from the Davangere University, Karnataka. Her area of interest is Accounting, Taxation and Finance. Her research interests are based on his fascination for how structure of derivatives market works and the retail investors' psychology how it works while making an investment. She has been exploring this phenomenon from different perspectives in both his research and other practices. She has published 3 International Journals, 4 National Journals, attended various international and national conferences/seminars.