

A STUDY ON THE ATTITUDE OF INVESTORS TOWARDS FINANCIAL DERIVATIVES WITH SPECIAL REFERENCE TO KERALA

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EXECUTIVE SUMMARY

A derivative is a contract that derives its value from the performance of an underlying entity. This underlying entity can be an asset, index, or interest rate, and is often simply called the "underlying". Derivatives can be used for a number of purposes, including insuring against price movements (hedging), increasing exposure to price movements for speculation or getting access to otherwise hard-to-trade assets or markets. Some of the more common derivatives include forwards, futures, options, swaps, and variations of these such as synthetic collateralized debt obligations and credit default swaps. The main participants in the derivative markets are Speculators and Hedgers. Major findings of the study on the attitude of investors especially speculators and hedgers towards financial derivatives are listed below:

Gender wise distribution shows that 96.25% of the speculators and 95% of the hedgers in the sample are male. The maximum number of speculators are in the age group of 30- 40 years; while the age group of 40- 50 years has the maximum number of hedgers. Education wise distribution of the sample shows that more than 50% of the respondents, irrespective of whether speculators or hedgers, are graduates. Occupation wise distribution shows that business class constitutes the most prominent group among both speculators and hedgers in Kerala. Income wise distribution shows that 65% of the speculators have an annual income of less than 4 lakh

rupees, while 70% of the hedgers have annual income above 4 lakh rupees. Marital status wise distribution of the sample group shows that 74% of the players in the derivative market are married. 66% of speculators and hedgers are from medium- sized families of three to five members.

Financial derivatives and corporate securities are more popular investment avenues among the players in the derivative markets. Nearly 45% of the speculators and hedgers are 'moderately risk loving'. Distribution according to net trading result shows that 35.33% of the respondents had profit while 32% had loss as their net result from trading in securities. Brokers and financial advisors constitute the most important source of information for hedgers and speculators. Equity derivatives are the most preferred derivative to invest in for speculators and hedgers.

Though both speculators and hedgers are well aware of the trading platform for derivatives products, the latter have better awareness than the former and the difference is statistically significant. Both speculators and hedgers are fairly aware of the margin requirements for trading in derivative trading. While speculators are only moderately aware of the settlement procedure, hedgers are fairly aware of the concept. The awareness of both speculators and hedgers on the relationship between spot and futures prices is quite low. The awareness of respondents on the hedging function of futures and the hedging practices are only moderate. Overall awareness of hedgers on commodity futures and its trading mechanism is higher than that of speculators.

Hedgers and speculators differ in their perception on the returns from investing in financial derivatives. Hedgers and speculators have similar perception regarding the risk of investing in financial derivatives.

In spite of high level of literacy in the state, vast majority of investors in Kerala do not take part in derivative trading. Hence the BSE, NSE and other Regulators should take necessary steps to educate investors of the benefits of derivative trading.