

## Factors influencing Investor in investing in Derivative Markets

**Dr.P Pinakapani**

Professor  
Aurora's PG College  
Ramanthapur, Hyderabad

**P Srinivas,**

Research Scholar,  
School of Commerce and Management  
Dravidian University  
A.P

### Abstract

*The global economic crisis and the consequent melt down has its roots in the over trading of derivatives. One of the major derivative instruments was the Credit Default Swap (CDS). CDS as an instrument for risk mitigating was widely used by several big players in the financial markets. The consequent bust of the housing market led to the collapse of initially smaller banks and then started threatening bigger players. Ultimately the crisis reached a stage where some of the biggest players like Bear Stearns, Freddie Mae and Fannie Mae etc. collapsed. AIG was faced a storm when the US Government threw a lifeline and thus saved.*

*After the liberalization, Privatization and Globalization (LPG), India opened up its economy and allowed prices to vary with volatile market conditions which became quite a difficult job for the corporate and related business sectors to have an approximation of future production costs and revenues due to oscillating prices and other fluctuations in the economy. In that context, derivatives emerged as one of the best solution for the problem of risk and uncertainty due to fluctuations in rate of interest, exchange rates, stock market prices and the other underlying assets. Thus, Indian derivative markets have emerged as an important part of modern financial system in less than threedecades of their emergence. Presence of financial derivatives created an environment where speculation rather than productive economic enterprise became a dominant activity.*

**Key Words:** Pre and Post liberalization – rate of interest – stock market prices – exchange rates – Credit Default Swap (CDS) – Price Risk – Interest Risk – Derivatives - Speculators

### Introduction

The continuous financial crisis for the years 1980-2010 in the last three decades have raised the awareness towards anxiety to know the impact of the new derivative instruments among the participants in the market, the economists and the policy makers. On 19th October 1987 the stock market crisis occurred has observed one day drop in the New York stock exchange and created a history in the other markets also like Hong Kong and Europe which were affected significantly. The major causes identified for this breakdown were existence of different market psychology, illiquidity and overvaluation of trading. After a decade in 1997 the Asian crisis started with same symptoms. The effects of crisis spilled on Frankfurt, New York and Tokyo Exchanges incurring heavy losses. The main cause identified for this crisis was managing the prices using the futures and options in the foreign exchange markets and the equity markets. In these critical situations, derivatives played catalyzing role in triggering the financial

crisis. It was also witnessed that the changes in the market were very high and unusual during this period. The abnormal volatility in the derivative trading was a cause of worry for regulators of capital markets and the policy makers. The financial crisis is the disturbance in the financial markets and is always interrelated with the changing asset prices, high volatility in the financial markets, illiquidity problems and insolvency among the market participants in the financial markets. The crisis has dominantly affected the markets capacity in allocating capital. Derivatives have been used since one hundred and fifty years in India in some or other form but recognized in the early 1990's only.

In the above context a study has been undertaken with the following objective:

- 1.1 To elucidate the key drivers influencing the investors to participate in derivatives market
- 1.2: Key drivers Influencing respondents participate in derivatives

The factors considered for this study are as follows:

- 1.1: Self-Awareness/Knowledge
- 1.2: Friends or relatives
- 1.3: Financial Advisor
- 1.4: Media
- 1.5: Broker’s advice
- 1.6: Expert’s Advice

All questions are framed on Likerts 5-point scale and coded for the analysis as follows:

- 1= Strongly Disagree, 2= Disagree,
- 3= Neutral, 4= Agree, 5= Strongly Agree

Influenced by Self Awareness/Knowledge wise distribution of Respondents (1.1)							
S.No	Criterion	Respondent Number (F)	Percentage of Res	Cumulative Percentage	Mean	SD	CV
1	Strongly Disagree	10	2.44	2.44	3.79	0.67	17.73
2	Disagree	10	2.44	4.88			
3	Neutral	53	12.96	17.85			
4	Agree	317	77.51	95.35			
5	Strongly Agree	19	4.65	100			
<b>Total</b>		409	100.00				

Table 1.1

From the Table:1.1, it can be inferred that the total of 82.16 % members either agree or strongly agreed on the statement that they are influenced on their self-whereas 12.96 percent are neutral and 4.88 percent of them are either disagree or strongly disagree. The calculated mean is 3.79 is in between Neutral and agree with a SD of 0.67 and the calculated Coefficient of variation is 17.73 % which means the respondents gave consistently very near opinion on this factor.

Influenced by Friends or relatives wise distribution of Respondents (1.2)							
S.No	Criterion	Respondent Number (F)	Percentage of Res	Cumulative Percentage	Mean	SD	CV
1	Strongly Disagree	0	0.00	0	4.11	0.55	13.38
2	Disagree	0	0.00	0			
3	Neutral	42	10.27	10.27			
4	Agree	281	68.70	78.97			
5	Strongly Agree	86	21.03	100			
<b>Total</b>		409	100.00				

Table 1.2

From the Table:1.2, it can be inferred that the total of 89.73 % members agreed or strongly agreed that on the statement that they are influenced on their relatives or friends, whereas 10.27 percent are neutral and none of them are either disagree or strongly disagree. The calculated mean is 4.11 is in between agree and highly agree with a SD of 0.55 and the calculated Coefficient of variation is 13.38 % which means the respondents gave consistently very near opinion on this factor.

Influenced by Financial Advisor wise distribution of Respondents (1.3)							
S.No	Criterion	Respondent Number (F)	Percentage of Res	Cumulative Percentage	Mean	SD	CV
1	Strongly Disagree	0	0.00	0	4.08	0.62	15.11
2	Disagree	0	0.00	0			
3	Neutral	53	12.96	12.96			
4	Agree	267	65.28	78.24			
5	Strongly Agree	89	21.76	100			
<b>Total</b>		409	100.00				

Table 1.3

From the Table:1.3, it can be inferred that the total of 87.04 % members agreed or strongly agreed that on the statement that they are influenced on their financial advisor, whereas 12.96 percent are neutral and none of them are either disagree or strongly disagree. The calculated mean is 4.08 is in between agree and highly agree with a SD of 0.62 and the calculated Coefficient of variation is 15.11 % which means the respondents gave consistently very near opinion on this factor.

Influenced by Media wise distribution of Respondents (1.4)							
S.No	Criterion	Respondent Number (F)	Percentage of Res	Cumulative Percentage	Mean	SD	CV
1	Strongly Disagree	0	0.00	0	4.08	0.56	13.74
2	Disagree	0	0.00	0			
3	Neutral	49	11.98	11.98			
4	Agree	278	67.97	79.95			
5	Strongly Agree	82	20.05	100			
<b>Total</b>		409	100.00				

Table 1.4

From the Table:1.4, it can be inferred that the total of 88.03 % members agreed or strongly agreed that on

the statement that they are influenced by media, whereas 11.98 percent are neutral and none of them are either disagree or strongly disagree. The calculated mean is 4.08 is in between agree and highly agree with a SD of 0.56 and the calculated Coefficient of variation is 13.74 % which means the respondents gave consistently very near opinion on this factor.

S.No	Criterion	Respondent Number (F)	Percentage of Res	Cumulative Percentage	Mean	SD	CV
1	Strongly Disagree	0	0.00	0	4.26	0.68	15.96
2	Disagree	0	0.00	0			
3	Neutral	55	13.45	13.45			
4	Agree	193	47.19	60.64			
5	Strongly Agree	161	39.36	100			
<b>Total</b>		409	100.00				

Table 1.5

From the Table:1.5, it can be inferred that the total of 86.55 % members agreed or strongly agreed that on the statement that they are influenced by brokers advise, whereas 13.45 percent are neutral and none of them are either disagree or strongly disagree. The calculated mean is 4.26 is in between agree and highly agree with a SD of 0.68 and the calculated Coefficient of variation is 15.96 % which means the respondents gave consistently very near opinion on this factor.

S.No	Criterion	Respondent Number (F)	Percentage of Res	Cumulative Percentage	Mean	SD	CV
1	Strongly Disagree	0	0.00	0	4.02	0.87	21.72
2	Disagree	32	7.82	7.82			
3	Neutral	55	13.45	21.27			
4	Agree	193	47.19	69.44			
5	Strongly Agree	129	31.54	100			
<b>Total</b>							

Table 1.6

From the Table:1.6, it can be inferred that the total of 78.73 % members agreed or strongly agreed that on the statement that they are influenced by experts

advise, whereas 13.45 percent are neutral and 7.82 percent of them are either disagree or strongly disagree. The calculated mean is 4.02 is in between agree and highly agree with a SD of 0.87 and the calculated Coefficient of variation is 21.72 % which means the respondents gave consistently very near opinion on this factor.

**Findings of the study**

1. Influenced by Self Awareness/Knowledge wise distribution of Respondents: The calculated mean is 3.79 is in between Neutral and agree with a SD of 0.67 and the calculated Coefficient of variation is 17.73 % which means the respondents gave consistently very near opinion on this factor.
2. Influenced by Friends or relatives wise distribution of Respondents The calculated mean is 4.11 is in between agree and highly agree with a SD of 0.55 and the calculated Coefficient of variation is 13.38 % which means the respondents gave consistently very near opinion on this factor.
3. Influenced by Financial Advisor wise distribution of Respondents:
4. From the analysis, it can be inferred that the total of 87.04 % members agreed or strongly agreed that on the statement that they are influenced on their financial advisor, whereas 12.96 percent are neutral and none of them are either disagree or strongly disagree. The calculated mean is 4.08 is in between agree and highly agree with a SD of 0.62 and the calculated Coefficient of variation is 15.11 % which means the respondents gave consistently very near opinion on this factor.
5. Influenced by Broker's advice wise distribution of Respondents :The calculated mean is 4.08 is in between agree and highly agree with a SD of 0.62 and the calculated Coefficient of variation is 15.11 % which means the respondents gave consistently very near opinion on this factor.
6. Influenced by Expert's Advice: The calculated mean is 4.02 is in between agree and highly agree with a SD of 0.87 and the calculated Coefficient of variation is 21.72 % which means the respondents gave consistently very near opinion on this factor.

**Conclusion:**

Financial Derivative Instruments is a vast subject of study and highly un-predictable. Earlier, some studies have been conducted on various objectives. The results of each are applicable for that current time. In this scenario the present study has been conducted on exclusively focusing on Self-Awareness/Knowledge, Friends or relatives,



Financial Advisor, Media, Broker's advice, Expert's Advice. From the overall analysis of the study it is understood that factors influencing are in the order of – Influence of friends and relatives (89.73%), influence of various types of related media (88.03%), influence by advisor, influence of stock market broker (86.55%), self awareness (82.6%) followed by expert adviser is 78.75%. Therefore, as per the survey analysis it can be concluded that the strong influence factor on investors decision is friends and relatives. But the fact is decision about financial investment always require experts advise than anyone else.

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