

STUDY ON KNOWLEDGE F INVESTORS AND IMPACT OF ADVISORY SERVICES ON INVESTMENT OUTPUT IN FUTURE & OPTIONS

Vinay Kumar, Khalid Mehraj

Department of Management Studies BGSB University, Indonesia

Email: vinaysharma@bgsbu.ac.in, Khalid.scholar@bgsbu.ac.in

Abstract

Derivative trading was launched in India on NSE as well as BSE in the year 2000 and since then it has been witnessed that trading in Derivative segment is growing at a very high speed. If we look at the data for the last 10 years i.e. from 2012-13 to 2021-2022, the turnover of trading in options and Futures on Stock & index has moved from 31533003.96 cr to 1695233134.47cr (source: NSE). It has also been observed that nowadays most of the traders who were trading in equity segment only have started trading in future and options segment. The F&O contracts are used by the investors for variety of purpose such as hedging, speculation, arbitrage, profit maximization etc. It has also been observed that nowadays most of the individuals, who have little knowledge about stock market and trading, are entering into options and future trades and some of them are taking the services of some advisors for reaping maximum profit out of it. As per the current study conducted by SEBI, it has been observed that total number of traders who traded from the top 10 brokers in Indian in F&O segments has increased to 45.2 lakhs in the FY 22 from the 7.1 lakhs in the FY 2019. It shows that there is a significant increase of around 500% in the FY 2022 as compared to the FY 2019. The current study has been conducted to understand the awareness level and perception of investors towards making investment in future and options. The data has been collected from 102 respondents of Jammu & Kashmir who are actively involved in F&O trading through Non-random purposive sampling technique. After an in-depth review of literature, a comprehensive questionnaire was developed to collect the data that can be analyzed by using the relevant statistical tools to achieve the objectives of the study. The data shows that 76% of the respondents were aware about the F&O contracts available in the market and around 70% have knowledge about the concept of expiry in future and options. Regarding preference of investment in future & options only 50% of the investors are there who prefer to make investment in future & options. It has also been found that majority of the investors have gone for taking the help of financial advisors for making investment in future and options and chi-square analysis shows that there exists a significant relationship between investment output of the investors and advisory services taken by the investors.

Keywords: Future & Options, Premium, expiry, trading, investment,

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INTRODUCTION

The Derivatives are considered as one the most complex financial instruments for the purpose of making investment (Young, 1996). As per the latest report of the SEBI, in the FY 22, 45.2 lakh traders who are registered with the top ten brokers, traded in future & options segment of the Indian Capital Market out of which 88% are the active traders (Moazzem & Rahman, 2012). It has also been observed that most of investors who are entering into Derivative market belong to the age group of 20-30 years and investors belonging to 30-40 years are having maximum share. Quite surprisingly, around 89 percent traders who are trading in equity future & Options are making losses (Boehmer et al., 2012). On an average out of the total active traders only 6% are making profit. If we look at the types of derivative products available in the derivative market, the most traded products are Index options, Stock options, Index Futures and Stock Futures (Sutcliffe, 2018). Majority of the investors trade in option segment only, as the capital required for such trades is much lower than the amount needed to take trade in futures (Ma, 1996). As per the SEBI report 98 percent of the active traders traded in options and only 11 percent traded in futures during the FY 2022. The Options contracts are more volatile as premium moves very fast with the movement of the underlying asset (Prokopczuk & Simen, 2014). But the important feature that attracts investors to make investment in options is requirement of small capital and chances of making big profits. The options can be traded through call & put options. The calls are purchased by the investors when they expect that the price of underlying assets go up and vice versus for put options. In future segment, the investor takes long position when they expect market prices of underlying assets to go up and in reverse situation go for short position (Rapach et al., 2016).

One very important aspect of derivative trading is awareness/knowledge & psychology of the investors. The Awareness component of the investors towards F&O has been taken into consideration across various demographic dimensions. The another most important aspect of derivative trading is the percentage of investors who are making profits. It has been observed during the survey that most of the traders who are making losses or have incurred loss ever in the trading career, are trying to recover their losses by taking the advisory services through WhatsApp groups or telegram channels. So, it becomes very important to understand the percentage of investor who are trading in F&Os are taking the advice from such financial advisors and whether they are making profit or losses. Therefore, an attempt has been made to assess the impact of such services an investment output of the Investors.

RESEARCH METHODS

The current study is empirical research, and it is based on the survey method. A structured questionnaire has been prepared based on the need of the study and inputs from various other studies conducted by other researchers in similar areas (Groves et al., 2011). The questionnaire was distributed among retail investors of J&K who are making investment in Future & options.

RESULT AND DISCUSSION

The trading in future & options is becoming very popular now a days and it has been found that most of the people who are having little or no prior knowledge about the F&Os are entering into this segment of the Stock market with the hope to earn huge returns (Patra et al., 2023). Therefore, the data has been collected to understand the knowledge of investors towards making investment in F&O and to find the impact of financial advisory (Call Services/tips) on the output of investors.

The data has been collected from the 102 respondents with the statement that whether you are aware about the F&O or not

Table: 1. Awareness about the F&Os

Response	Frequency	Percent
Yes	78	76.5
No	24	23.5
Total	102	100

Source: Author's Calculations

The data has been collected from the respondents reveals that out of the total respondents who are engaged in trading in F&O, 76.5% are of the view that they are well aware about the trading in F&O and rest of the 23.5% are not well aware about the F&O.

The trading in options is most risky investment as it can lead to higher profits as well as losses (Dowd, 2000). The Premium of options contract moves very fast with the movement of market in any direction and even it decays if market remains flat. Therefore, it is very important for the investors to understand the fundamentals based on which the premium moves in either direction.

Table: 2 Have you ever heard about Premiums in Call and put options?

Response	Frequency	Percent
Yes	76	74.5
No	26	25.5
Total	102	100.0

For the same purpose, the data collected from 102 respondents reveals that around 74.5% of the respondents said yes and 25.5% said no. This data shows that around 25% of the respondents are not well aware about the F&O's even though they are doing trading or investing in F&O.

On expiry the value of premium in options can move to zero that can result in loss of complete capital of the investors. Therefore, for further investigating the knowledge of investor towards F&O, a statement was presented before the respondents that whether you are aware about the concept of the expiry in F&O or not.

Table: 3 Awareness about concept of Expiry in Future & options

Response	Frequency	Percent
Yes	72	70
No	30	30
Total	102	100.0

From the data collected it has been found that out of the total investors only 70 percent of the respondents have knowledge about the concept of expiry in future and options contracts.

It is generally believed that area of residence plays an important role in the awareness of investors towards the various investment options. Therefore, the data has been collected from Urban & Rural Investors of the J&K. The Data collected has been presented in the table 4

Table 4 Awareness across area of residence of the investors

Area of Residence * Are you well aware about future and option contracts available in the Market?			Chi- Value and P value	
Area of Residence	Awareness about F&O		Total	
	Yes	No		
Rural	64	18	82	Chi-Value=.579 P Value= .447
	78.0%	22.0%	100.0%	
Urban	14	6	20	
	70.0%	30.0%	100.0%	
Total	78	24	102	
	76.5%	23.5%	100.0%	

The awareness of the investors towards F&O have been analysed by using Chi-Square test and it has been found from the cross tabulation that majority of the investors who are living in urban as well as rural areas are well aware about the Future and options contracts available in the market for making investment. The chi-square value of .579 is also not found to be significant as p value is much higher than .05, which indicates that awareness level of investors towards F&O is not dependent on the area of residence of the investors (Turhan, 2020). So, we accept the null hypothesis, that the two variables are independent of each other and reject alternate hypothesis.

The collected data has been analysed using Ch- Square test and is presented here in the table 5.

Table 5 Awareness across Educational Qualification of the investors

Educational Qualification of the Respondent * Are you well aware about future and option contracts available in the market?			Chi- Value and P value	
Educational Qualification of the Respondent	Awareness		Total	
	Yes	No		
UG	2	0	2	Chi-Value=4.59 & P value= .204
	100.0%	0.0%	100.0%	
G	12	8	20	
	60.0%	40.0%	100.0%	
PG	26	8	34	
	76.5%	23.5%	100.0%	
PGP	38	8	46	
	82.6%	17.4%	100.0%	
Total	78	24	102	
	76.5%	23.5%	100.0%	

The collected data from the investors awareness across educational qualification shows that almost 82.6 of the investors who are having their PG in professional course are well aware about the F&O followed by investors with PG in general subjects. The 60% of the investors who are graduate are well aware about the F&O. The Chi-square value for the same data shows that the two variables i.e. Awareness and qualification of the respondents are not associated with each other as the Chi- value of 4.59 is not significant as p value is much higher than the acceptable value of .05.

Preference of Investors towards various Investment Options in Security Market

In addition to derivative products, there are number of investment alternatives available for investors in which they can make investment. The three major investment alternatives as shown in the table 6 has been selected for analysis.

Table: 6 Preference of Investors towards various Investment Options in Security Market

Preference of Investors	Mean	Std. Deviation	Rank
I prefer to make investment in Mutual funds	3.392	1.2280	2
I prefer to make investment in Shares	3.51	1.002	1
I prefer to make investment in Options	3.24	1.387	3
I prefer to make investment in Futures	3.08	1.377	4

The four investment options have been considered here for finding the preference of investors towards investment in Options, futures, shares and Mutual funds. These four specific items have been selected for the analysis as these investments are directly linked with the returns on stock market (Edmans, 2011). One Sample T-test has been used to find the average of all the preference of the investors and it has been found that the Shares are most preferred as an investment option by the respondents with a mean score of 3.51 followed by investment in Mutual funds with a mean score of 3.392. The third most preferred investment alternative is option contract followed by futures (Bolton & Faure-Grimaud, 2010). Therefore, it is clear from the data that options stands at the third number with respect to most preferred investment option that may be due the fact that investment in option and future involves high risk and needs more expertise.

Impact of financial advisory services on the returns of the investors

The investor who works in the investment business either as a part time trader or full-time trader always looks for the opportunities through which he/she can make good profit. Now a day we can find number of financial advisors who offer the investors with an advisory service for charging some nominal charge (Arjunwadkar, 2018). Therefore, here an attempt has been made to find the percentage of investors who have ever taken the service of such financial advisors. From the data collected it has been found that around 62.7 % of the investors under survey are using or have used the advisor’s service for taking investment decision and 37.3% are those who have never taken the service of financial advisors.

Table 7 Have you ever taken the service of financial advisor for making investment in F&O?

Response	Frequency	Percent
Yes	64	62.7
No	38	37.3
Total	102	100.0

Furthermore, the data has been analyzed by using chi-square test to understand the impact of this financial advisory service on the profitability of the investors.

Table 8 Impact of Financial Advisory Service on Investment Output of the Investors

Advice from financial Advisors? * Profit/Loss from investment in futures and options				Chi-Value & P value
Have you ever taken advice from the Investment Advisors?	From the investment/trading in futures and options you have made			Chi-Value & P value
	Profit	Loss	Total	Chi-Value & P Value=
Yes	46 71.90%	18 28.10%	64 100.00%	Value=6.13 & P Value=.013
No	18 47.40%	20 52.60%	38 100.00%	
Total	64 62.70%	38 37.30%	102 100.00%	

From the data collected and analysed through cross-tabulation it is clear that out of the total (64) respondents who are using or have ever taken the service of financial advisors 72% made profit and only 28% have resulted in losses. On the other hand, out of the total 38 respondents who never used the service of financial advisors, almost 47% have made the profit and rest 53% have resulted in losses from the trading in F&O.

To find that whether the profit and loss of the investors from trading activity in F&O have any relationship between service from the financial advisors, the chi-square analysis has been done and it has been found that investment output (Profit/Loss) has a significant association with the service from the financial advisors (Mohan, 2019). The chi-square value for the same is 6.113 and p value is .013 which is lower than .05, which shows that there exists a significant relationship between the two variables (investment output * service from financial advisors). So we reject the null hypothesis and accept the alternate one.

Reliability testing demonstrates the consistency or caliber of test results obtained from response data. This test is significant because it provides a result that indicates how much trustworthy data is present. Here, in our research result of this test is .727 which can be used good and acceptable.

Table 9 Reliability Test Of The Data

Reliability Statistics	
Cronbach's Alpha	N of Items
.727	19

CONCLUSION

The present study shows that most of the investors who are trading in derivative segment of the market are having good knowledge of futures and options as per the data available. It has also been found that investors have no impact of their qualification and area of residence on awareness and knowledge of the investors towards F&Os. It has also been found that most of the investors are taking advice from the financial advisors in the market and most of them are making good profits out of that.

It has also been concluded from the above research that the investment in the capital market is subject to high risk. So, the the investors need to familiarize themselves with the fundamentals of the futures and options available in the capital market to minimize the risk.

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