

Awareness and Comparative Analysis of Derivatives and Equity Markets

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Abstract: *This research paper explores the awareness and understanding of derivatives in comparison to equity investments among investors. It focuses on the risk, reward, and investment patterns associated with derivatives and how they differ from traditional equity markets. The study assesses investor preferences, market trends, and regulatory frameworks while examining the role of financial derivatives in modern investment strategies.*

Keywords: Derivatives Instruments, Investor Behavior, Equity Comparison, Market Awareness, Financial Strategies

1. Introduction

Financial markets have evolved significantly over time, with the introduction of complex financial instruments like derivatives. While equity investments have been traditionally favored by investors, derivatives provide an alternative for hedging, speculation, and arbitrage. This study aims to assess the level of awareness and adoption of derivatives among investors in Pune, comparing them with equities.

Industry Overview

The stock broking industry in India has a rich history dating back nearly 200 years. The Bombay Stock Exchange (BSE) was formally established in 1875, followed by the National Stock Exchange (NSE) in 1992. The derivatives market emerged in 2000, providing instruments such as futures and options to investors. Today, derivatives play a crucial role in financial markets by allowing investors to manage risk and enhance returns.

Company Profile - Nirmal Bang Securities Pvt. Ltd.

Nirmal Bang is a prominent retail broking firm in India, offering services in equity, derivatives, and commodities trading. Established in 1986, the firm provides financial advisory, portfolio management, and depository services to investors. With a strong technological foundation and research-driven investment strategies, Nirmal Bang has positioned itself as a key player in India's financial markets.

Financial Derivatives

Definition and Importance: Derivatives are financial contracts whose value is derived from an underlying asset such as stocks, bonds, commodities, or market indices. They serve multiple purposes, including risk management, speculation, and improving market efficiency.

Types of Derivatives:

- **Forwards:** Customized contracts between two parties to buy or sell an asset at a predetermined future date.
- **Futures:** Standardized contracts traded on exchanges that obligate the buyer and seller to transact at a future date.
- **Options:** Contracts that give the holder the right, but not the obligation, to buy (call option) or sell (put option) an asset.

- **Swaps:** Contracts that involve exchanging cash flows between two parties, often used in interest rate and currency markets.

Risks Associated with Derivatives:

- **Market Risk:** Price fluctuations can result in significant losses.
- **Liquidity Risk:** Some derivatives may have low market participation, making it difficult to exit positions.
- **Counterparty Risk:** Non-exchange-traded derivatives carry the risk of default by the counterparty.

Research Methodology

This study employs a descriptive research design using primary and secondary data sources. A survey was conducted among 200 investors in Pune to assess their awareness and preference for derivatives versus equities. Data was collected through questionnaires and analyzed using statistical tools.

2. Data Analysis and Findings

Investor Participation: Out of 200 respondents, only **37%** actively trade in the derivatives market, while **63%** prefer equities.

Reasons for Avoiding Derivatives:

- **49.2%** of investors perceive derivatives as highly risky.
- **20.6%** lack knowledge about derivatives.
- **15.1%** are unaware of derivative instruments.
- **13.5%** believe derivatives require large capital investments.

Objectives of Trading in Derivatives:

- **Speculation (45%)**
- **Hedging (30%)**
- **Arbitrage (15%)**
- **Other reasons (10%)**

Comparative Analysis - Derivatives vs. Equities:

Features	Derivatives	Equities
Risk Level	High	Moderate
Return Potential	High	Medium
Investment Amount	High	Low
Liquidity	Medium	High
Trading Hours	9 AM - 3:30 PM	9 AM - 3:30 PM

Conclusion

The study reveals that derivatives trading is still not widely adopted due to high perceived risk and lack of awareness. However, derivatives provide substantial benefits for hedging and speculation. Increasing financial literacy and simplifying derivatives trading can encourage more investors to participate in this market.

Recommendations

- **Financial Education Programs:** Conduct awareness campaigns to educate investors about derivatives.
- **Risk Management Tools:** Provide robust risk assessment tools to mitigate market uncertainties.
- **Simplified Trading Platforms:** Enhance user-friendly trading platforms to attract retail investors.

References & Appendix:

- Books, journals, and financial reports related to equity and derivatives trading.
- Survey questionnaire used for data collection.
- This research contributes to understanding investor behaviour in financial markets and provides insights into improving participation in derivatives trading.

3. Research Methodology

Objective of the Study:

- To analyze the awareness of the derivative market among investors.
- To compare the derivatives market with equity investments in terms of benefits and risks.
- To understand the factors influencing investor behavior in the equity market.

Research Source of Data:

There are two types of sources of data which is being used for the studies:

1) Primary Source of Data:

Preparing a Questionnaire is collecting the primary source of data & it was collected by interviewing the investors.

2) Secondary Source of Data:

For having the detailed study about this topic, it is necessary to have some of the secondary information, which is collected from the following:

- Books.
- Magazines & Journals.
- Websites.
- Newspapers, etc.

3) Methods of Data Collection:

The study to be conducted is about the awareness of the Derivative Market in the Pune City so the method of data collection used is "SURVEY METHOD".

4. Literature Review

1) Awareness of the Derivative Market Among Investors

Several studies have explored investor awareness of derivatives and their complexities. Khan and Sultana (2017) examined the level of understanding among retail investors regarding derivative instruments. They found that while there

was a basic awareness of options and futures, many investors lacked a deep understanding of the risks involved. Bhatia (2018) highlighted that educational initiatives and financial literacy programs significantly improve investor awareness, suggesting that informed investors are more likely to engage in the derivatives market effectively.

Sharma et al. (2020) conducted surveys that revealed a significant gap in knowledge between institutional and retail investors, with institutional investors showing a much higher level of awareness and understanding. This gap can lead to underutilization of derivatives among less informed investors, which may impact their portfolio performance.

2) Awareness about equity investment among retail investors

Bhattacharjee, J., & Singh, R. (2017). Awareness about equity investment among retail investors: A kaleidoscopic view. *Qualitative Research in Financial Markets*, 9(4), 310-324.

3) A study of awareness and behaviour towards equity and derivatives market

Kaakandikar, R. (2022). A Study of Awareness and Behavior Towards Equity and Derivative Market. Available at SSRN 4912797.

4) The risk and return of impact investing funds

Jeffers, J., Lyu, T., & Posenau, K. (2024). The risk and return of impact investing funds. *Journal of Financial Economics*, 161, 103928.

5) Factors Influencing Investor Behavior in the Equity Market

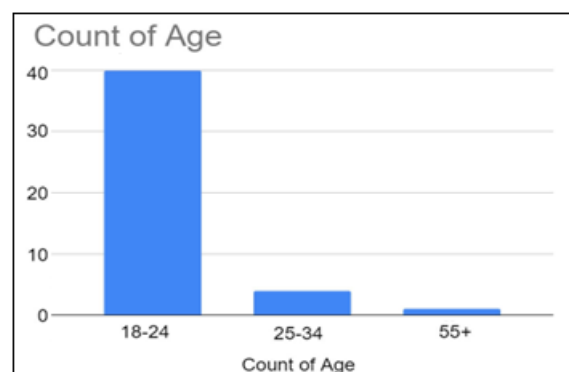
The behavior of investors in the equity market has been extensively studied, with various factors identified as influential. Fama and French (2015) discussed how behavioral biases, such as overconfidence and herd behavior, can affect investment decisions. These biases often lead to suboptimal trading strategies and can exacerbate market volatility.

5. Data Analysis and Interpretation

1) Demographics

Q.1 To know the age of the respondent?

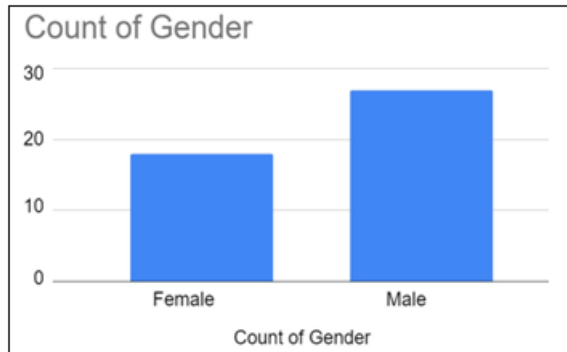
Objective: To know the age of the respondent and their preference about equity investment and derivatives trading.



Inference: From the above graph we can see that out of 45 investors 88.9% investors are 18-24 years, 8.9% investors are 25 to 34 years, 2.2% investors are above 55 years trading in derivative market.

2) Gender

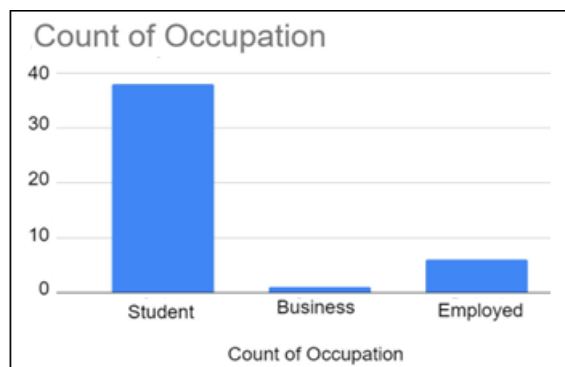
		Frequency	Percent
1	Male	27	60
2	Female	18	40
3	Total	45	100



Inference: From the above graph we can see that there are 27 male investors when 18 are the female investors.

3) Occupation

		Frequency	Percent
1	Student	38	84.4
2	Employed	6	13.3
3	Business	1	2.2
	Total	200	100

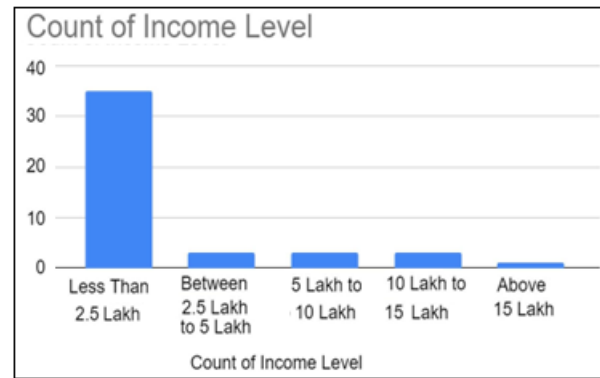


Inference:

From the above graph we can see that 84.4% investors are students, 13.3% are the employed, 2.2% are the business from the collected data from 45 respondents.

4) Annual Income Level

Income Level	Frequency	Percentage
Less Than 2.5 Lakhs	35	77.80%
2.5 Lakh to 5 Lakh	3	6.70%
5 Lakh to 10 Lakh	3	6.70%
10 Lakh to 15 Lakh	3	6.70%
15 Lakhs & above	1	2.20%
Total	45	100%



Inference:

From the above graph we can see that 77.8% investors have less than 2.5lakh annual income, 6.7% investors have 2.5lakhs to 5 lakhs annual income, 6.7% investors have 5lakhs to 10lakhs annual income, 2.2% investors have 15 lakhs & above annual income.

5) How long have you been investing?

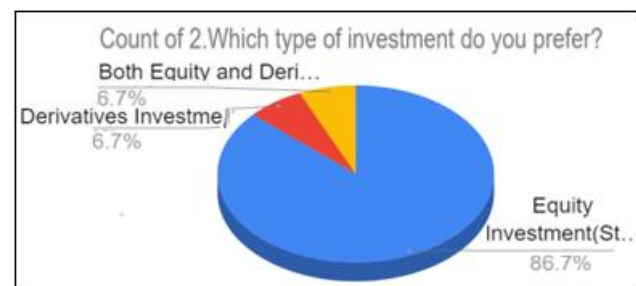
Objectives: To know the duration of investing of the respondents who are investing in securities market.



Inference: From the above graph we can see that 53.3% investors means 24 respondents are investing less than a year, 33.3% investors mean 15 respondents are investing for 1-2 years, 13.3% investors mean 6 respondents are investing for 3-5 years.

6) Which type of investment do you prefer?

Objective: To know the preference of investors who would prefer equity investment or derivatives trading or both equity and derivatives.

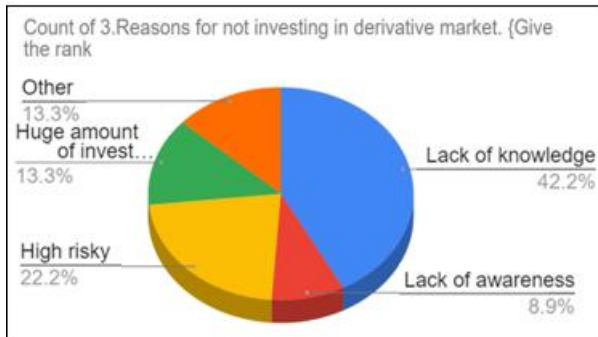


Inference: From the above graph we can see that 86.7% investors have preference towards investing in equity

instruments & 6.7% investors have preference towards investing or trading in derivatives instruments & 6.7% investors have preference in both equity and derivatives.

7) Reasons for not investing in derivative market?

Objective: To know the reasons why investors are not trading in derivatives market.



Inference:

From the above graph we can see that 42.2% investors don't trade or invest in derivatives instrument due to lack of knowledge, 22.2% feel derivatives instruments are risky, 13.3% investors feel they required huge capital before starting trading or investing in derivatives instruments, 13.3% investors have not stated their response from the given options as they feel the reasons are different from the given options, 8.9% investors don't trade or invest because due to lack of awareness among themselves.

8) Give your preference of trading in derivatives instrument?

Objectives: To know the preference of investors who would prefer derivatives instruments.



Inference: From the above graph we can see that 53.3% investors are neutral about the opinion towards trading in derivatives instrument, 33.3% investors don't trade in derivatives instruments, 6.7% investors are most preferred towards trading in derivatives instruments, 6.7% investors are not at all prefer trading in derivatives instruments.

9) Give your preference of trading in equity instrument?

Objectives: To know the preference of investors who would prefer trading or investing in equity instruments.



Inference: From the above graph we can see that 44.4% investors have most preferred towards the equity instruments, 31% investors are neutral about their opinion, 20% people don't invest in equity instruments its shocking to be seen in the current aura of people, 4.4% investors are not at all prefer trading in equity instruments.

10)How much percentage of your income you trade in derivatives market?

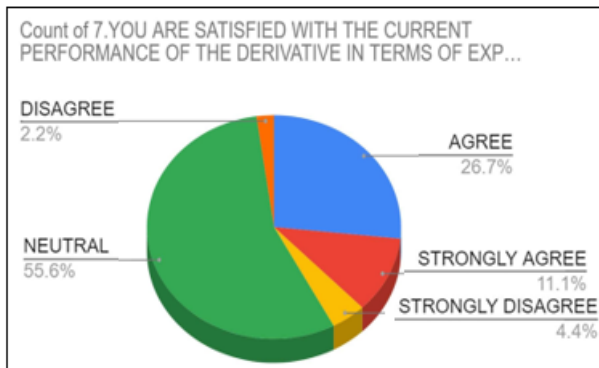
Objectives: To know the amount in percentage of investors they trade in derivatives market.



Inference: From the above graph we can see that 37.8% investors don't trade in derivatives instrument, 28.9% investors are less than 5%, 20% investors are 5 to 10%, 6.7% are 11-15%, 2.2% investors are 16-20%, 4.4% investors are more than 20%,

11)You are satisfied with the current performance of derivatives in terms of expected returns?

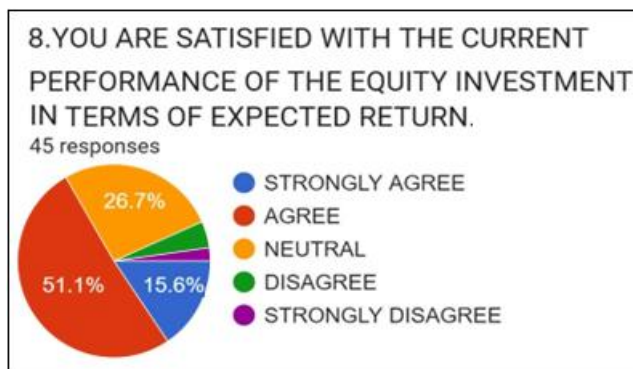
Objectives: To know if the investors are satisfied with the current performance of derivatives in terms of expected returns.

**Inference:**

From the above graph we can see that 55.6% investors have a neutral opinion, 26.7% investors agree with their current expected returns, 11.1% investors strongly agree with their expected returns, 4.4% investors strongly disagree with their expected returns, 2.2% investors disagree with their expected returns.

12) You are satisfied with the current performance of the equity investment in terms of expected returns?

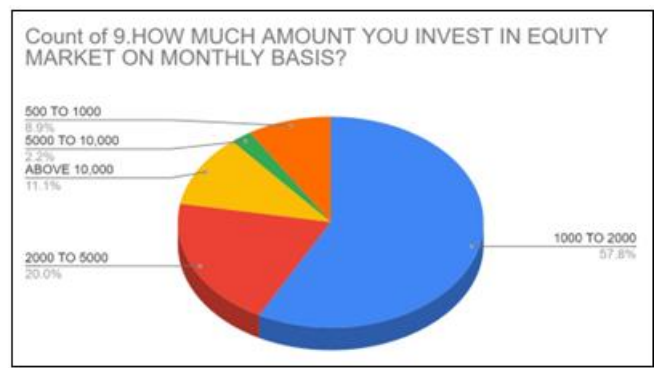
Objectives: To know if the investors are satisfied with the current performance of the equity investment in terms of expected returns.

**Inference:**

From the above graph we can see that 15.6% investors strongly agree with their current expected returns, 51.1% investors agree with their expected returns, 26.7% investors are neutral above their opinion, 4.4% investors disagree with their current expected returns from the equity market, 2.2% investors strongly disagree with their expected returns from the equity market.

13) How much amount you invest in equity market on monthly basis?

Objectives: To know the preference of investors about the investment amount they invest in equity market on monthly basis.

**Inference:**

From the above graph we can see that 8.9% investors invest around 500 to 1000 rupees in equity market, 57.8% investors invest around 1000 to 2000 rupees in equity market, 20% investors invest around 2000 to 5000 rupees in equity market, 2.2% investors invest 5000 to 10,000 in equity market, 11.1% investors invest above 10,000 rupees in equity market monthly.

6. Findings

- 1) Here we found that out of 45 investors 17 means 37% investors are trading in derivative market whereas 28 means 63% are not trading in derivative market.
- 2) Reasons for not investing in derivative market is derivative is because lack of awareness and knowledge, high risky, need huge amount of investment.
- 3) The main objective of trading in derivative market of the investors is getting high return with high risk.
- 4) Criteria for trading is considered by investors are derivatives in derivative they get margin money and derivatives are more liquid.
- 5) Their attractive preference is in equity market as it is less risky than derivatives
- 6) Most of the investors are investing in equity market
- 7) Out of 45 investors 12.5% investors are investing 11% to 15% of their income trading in derivative market.
- 8) 12.5% are satisfied with derivative market 9.27 male investors and 18 female investors out of 45 investors.
- 9) Most of the businessman and employed are trading in derivative market.

7. Conclusion

1. The awareness regarding Derivative among investor is 78 percent.
2. In terms of investment in Derivative and Equity investors have capability of taking risk.
3. Investors also prefer Safety and Time Factor as the important parameter for investing.
4. The important factor that affecting the investor decision is based on their knowledge level.

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- 7) www.ncdex.com
- 8) www.moneycontrol.com
- 9) www.rediffmoney.com
- 10) www.tradingstock.com
- 11) www.stockmarkets.com

Following books, magazine and newspapers are also consulted-

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