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A Study on the Derivatives Market in India

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Abstract - An important part of every country's economic growth is the derivatives market. The purpose of this research is to learn how the volatility of financial derivatives affects the underlying market (f utures and options). Today, financial derivatives are among the most widely utilised and widely traded instruments in the world. The phenomenal worldwide expansion of this phenomenon has earned it the name "the derivatives revolution." In recent years, the derivatives market in India has seen greater development and expansion than in other countries. Derivative. An Indian stock market firm derivative is used as a case study in this article to explore the concepts of futures and options. We hope that at the end of this paper, readers will have a better understanding of how they may maximise their returns when trading in the derivatives market.Today's financial markets would collapse without the use of derivatives, a special kind of financial instrument. Popularity and activity in the derivatives market are high in India. There is no denying the high degree of uncertainty inherent in the price movements of assets traded on the currency, commodity, and stock markets. "Derivatives are instruments that, when used in a financial market, may increase the efficiency of a market by facilitating price discovery, liquidity, and the transfer of risk. Additionally, derivatives are used by investors and corporations as a risk management tool. Due to the unfamiliarity and complexity of derivatives trading, investors are wary and have divergent opinions.

You may reduce the exposure you have while trading an underlying asset by using a derivative instrument. Derivatives, in their simplest form, are any financial instrument whose value is derived from some other asset or index. Commodities like gold, cotton, pepper, etc., and financial assets like stocks, currencies, bonds, etc., make up the underlying assets. Derivatives are broken down into two broad categories, commodities derivatives and financial derivatives, according to the kind of assets they are based on. The primary goal of these products is to mitigate financial risks by providing commitments to future prices in the event of unfavourable fluctuations in future prices. They also provide possibilities for financial gain for those willing to take greater risks. In other words, these tools make it possible for risk to be transferred from those who would want to avoid it to those who are ready to embrace it. Therefore, investors may reduce the effect of price changes on profits by locking in asset values.

Keywords - Financial Market, Derivatives,Futures, Options, India

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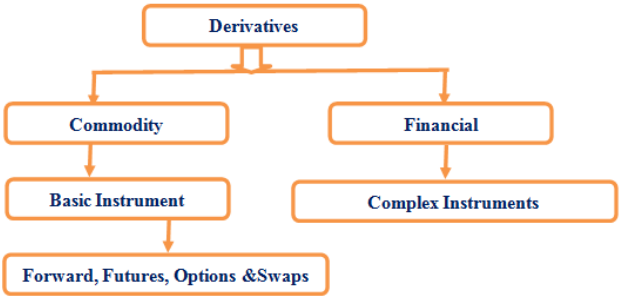
INTRODUCTION

Derivatives are one of the most multifaceted instruments. The word derivative comes from the word to derive. It indicates that it has no independent value. A derivative is a contract whose value is derived from the value of another asset, known as the underlying asset, which could be a share,a stock market index, an interest rate, a commodity, or a currency. The underlying is the identification tag for a derivative contract. When the price of the underlying changes the value of the derivative also changes. Without an underlying asset, derivatives do not have any meaning. For example, the value of a gold futures contract derives from the value of the underlying asset i.e., gold. The prices in the derivatives market are driven by the spot or cash market price of the underlying asset, which is gold in this example.The basic purpose of these instruments is to provide commitments to prices for future dates for giving protection against adverse movements in future prices, in order to reduce the extent of financial risks.

Indian Derivative Market

As the initial a step towards the introduction of derivatives trading in India, SEBI set up a 24 member committee under the chairmanship of Dr. L.

C. Gupta on November 18, 1996 to develop an appropriate regulatory framework for derivatives trading in India. The committee submitted its report on March 17, 1998 recommending that derivatives should be declared as securities so that regulatory framework applicable to the trading of securities could also govern the trading of derivatives. Subsequently, SEBI set up a group in June 1998 under the chairmanship of prof.J.R.Verma, to recommend submitted its report in October 1998. It worked out the operational details of the margining system, a methodology for charging initial margins, membership details and net-worth criterion, deposit requirements and real-time monitoring of positions requirements. The exchange-traded derivatives started in India in June 2000 with SEBI permitting BSE and NSE to introduce the equity derivative segment. To begin with, SEBI approved trading in index futures contracts based on nifty and Senses, which commenced trading in June2000.later, trading in index options commenced in June 2001 and trading in options on individual stocks commenced in July 2001. Future contracts on individual stocks started in November 2001. Metropolitan Stock Exchange of India limited (MESI) started trading in derivative products in February 2013. Derivatives market in India has a history dating back in 1875. The Bombay Cotton Trading Association started future trading in this year. History suggests that by 1900 India became one of the world's largest futures trading industry. However after independence, in 1952, the government of India officially put a ban on cash settlement and options trading. This ban on commodities future trading was uplift in the year 2000. The creation of National Electronics Commodity Exchange made it possible.In 1993, the National stocks Exchange, an electronics based trading exchange came into existence. The Bombay stock exchange was already fully functional for over 100 years then.Over the BSE, forward trading was there in the form of Badla trading, but formally derivatives trading kicked started in its present form after 2001 only. The NSE started trading in CNX Nifty index futures on June 12, 2000, based on CNX Nifty 50 index



Categorisation of Derivatives

Commodity derivatives: Commodity derivatives are investment tools that allow investors to profit from certain commodities without possessing them. The buyer of a derivatives contract buys the right to exchange a commodity for a certain price at a future date. The buyer may be buying or selling the commodity.

Financial derivative: A financial derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Common underlying instruments include bonds, commodities, currencies, interest rates,market indexes, and stocks

Forwards: Forwards are over the counter (OTC) derivatives that enable buying or selling an underlyingon a future date, at an agreed upon price. The terms of a forward contract are as agreed between counterparties.

Futures: Futures are exchange traded forwards. A future is a contract for buying or selling a specific underlying, on a future date, at a price specified today, and entered through a formal mechanism on an exchange. The terms of the contract are specified by the exchange.

Options:

An option is a contract that gives the right, but not an obligation, to buy or sell the underlying on or before a stated date and at a stated price. While buyer of option pays the premium and buys the right, writer/seller of option receives the premium with obligation to sell/buy the underlying asset, if the buyer exercises his right.

Swaps: A swap is an agreement made between two parties to exchange cash flow in the future according to a prearranged formula. Swaps are, broadly speaking, series of forward contracts. Swaps help market participants manage risk associated with volatile interest rates, currency exchange rates and commodity prices.

Exotic Derivatives: Exotic Derivatives usually refers to more complex, unusual and specific derivative contracts that depend on the value of some underlying asset or defined set of assets.

LEAPS: LEAPS (an acronym for Long Term Equity Anticipation Security) are options of longer terms than other more common options. In traditional short-term options, LEAPS are available in two forms, calls and puts.

NEED FOR THE STUDY

- It helps the investors to construct a diversified portfolio.
- This study suggests investors about investment in futures, options, and swaps.
- It is used to know the risk management in derivatives.

OBJECTIVES OF THE STUDY

- To analyze the role of derivatives in the Indian stock market
- To identify and compare the futures, options, and swaps in derivatives in Indian stockmarket.
- To illustrate the growth and performance of futures and optionsand swaps.

DATA ANALYSIS AND INTERPRETATION

The relationship between risk and return from derivative trading calls for consideration of investor's satisfaction level in relation to different variables. The present study was conducted in Ernakulam district of the Kerala state. The level of satisfaction and attitude of the investors were analysed with the help of different statistical tools and methods. The method used in the study is exploratory as it utilizes scoring of the variables. The collected data contains both the qualitative and quantitative data. Accordingly, the study uses both qualitative and quantitative techniques for the analysis of data. The statistical analysis comprised of two stages.

The first stage examined the descriptive statistics of the measurement items and assessed the reliability and validity of the measure applied in this study. The second stage tested the proposed research model and this involves assessing the contributions and significance of the manifest variables path coefficients. The data were analyzed via SPSS 20.0 for Windows. Descriptive statistics were used to describe and summarize the properties of the mass of data collected from the respondents. Parametric statistics like independent sample Z test and the one-way analysis of variance were used for comparison of the factors considered between different level of the demographic variables. A level of 0.05 was established a priori for determining statistical significance.

The main objective of the study is to evaluate various problems faced by the F&O trading to an investor in Ernakulam District and their satisfaction level with F&O trading. In the present study, we converted opinion into a score for some variables. So, the answer may be subjected to random variation and is influenced by psychological factors. Hence it is better to use psychometric scale development approaches to evaluate the relationship. The best model for testing the convergent validity and for modeling the best method is Structural Equation Model or confirmatory factor analysis. For the analysis initially an input model was developed by using AMOS-18 graphics.

An assessment of the statistical reliability is necessary before any further validation analysis. Reliability refers to degree of dependability or consistency of a scale. Unreliable scale will lack consistency of measuring the same item to the extent. Now a day, particularly for field survey, internal Consistency is estimated by using Cronbach's alpha. An alpha value of 0.70 or above is criterion for demonstrating strong internal consistency, alpha value of 0.60 or above is significant.

Accordingly, before conducting the SEM first we evaluate the reliability of the questionnaire using Cronbach's alpha. The following table gives the initial and final Cronbach's alpha for each of the construct considered. Result shows that all of the constructs has reliability greater than 0.6 so we proceed for further analysis.

Table 1: Cronbach's Alpha Reliability Test

Variables	Cronbach's Alpha	No. of Items
Level of satisfaction	0.858	10
Problems experienced in derivatives trading	0.653	9
Factors which can modulate derivative market	0.914	6
Reasons behind comparatively less derivative trading	0.671	5

Profile Of The Respondents

The survey was conducted among the 175 investors in Ernakulam District. The investors were categorized on the basis of age, sex, education, occupation and monthly income. The influences of demographic control variables, that is, gender, age, education, income levels, and occupation towards the various accepts of financial literacy. The analyses were conducted using independent sample Z test and one way ANOVA.

- **Gender Wise Classification Of Investors**

Table 4.2 states that gender wise classification of the respondents in Ernakulam district. 84 percent of the respondent constitute male respondents and 16 per cent are female respondents.

Table 2: Gender wise classification of Respondents

Gender	Responses	Percent
Male	147	84.0
Female	28	16.0
Total	175	100

Source: Primary data

Sex wise classification of investors are presented in the Figure 1. Of the total sample (175 investors) of investors in Ernakulam district, 147 respondents are male investors and rest of the respondents (28 investors) are female respondents

Source: Primary data

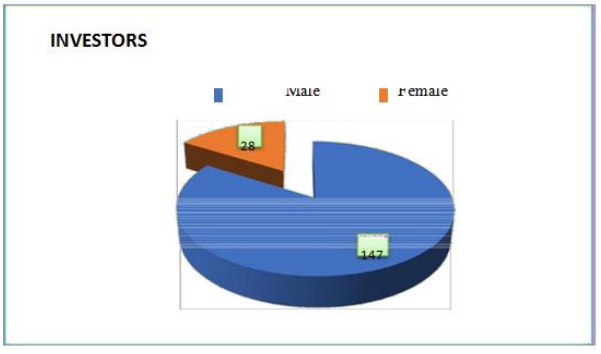


Figure 1: Sex wise classification of Investors.

H0a: There is no significant difference in satisfaction level of male and femaleinvestors.

H1a: There is significant difference in satisfaction level of male and female investors.

An independent sample Z test are often used to compare the satisfaction level of variables for two different groups of participants, that is, male and female investors.

Hence a Z test was conducted, and the results were shown in the Table 3

Table 3: Means, Standard deviation and z value for Gender.

Variable	*Gender*	*N*	*Mean*	*Std. Deviation*	*z*	*p value*
Level of satisfaction	Male	147	28.40	4.43	1.621	0.107
	Female	28	26.86	5.54		

Source: Primary data

The result shows that no significant difference in the satisfaction level exist between the male and female investors as the p value in these cases is greater than 0.05. So we accept the *H0a* hypothesis.

- **Age Wise Classification Of Investors**

Age wise classification of respondents are presented in the Table4. The table reveals that majority (41.7 percent) of the respondents are included in the 31–40 category. 30.3 percent of the respondents are 20-30 years' category. 16 percent of the respondents are 41-50 category and only 12 percent of the respondents were above 50 age category.

Table 4: Age wise classification of Respondents.

Category	Respondents	Percent
20-30 years	53	30.3
31-40 years	73	41.7
41-50 years	28	16.0
Above 50	21	12.0
Total	175	100.0

Source: Primary data.

Figure2 shows that investors are categorized into different age groups. Majority of the investors belonged to 31-40 age category and the next majority comes to 20-30 category.

Source: Primary data

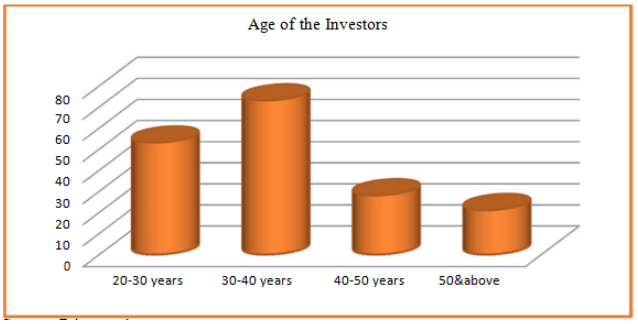


Figure 2: Age wise classification of investors

H0b: The level of satisfaction does not differ with age.

H1b: The level of satisfaction differs with age.

A one sample analysis of variance (ANOVA) is used to test hypotheses about means when there are three or more groups ofone independent variable. The result of the analysis is exhibited in Table 5

Table 5: Means, Standard deviation and F value for Age

Variable	*Age*	*N*	*Mean*	*Std. Deviation*	*F*	*p value*
Level of satisfaction	20-30 years	53	24.92	5.59		
	30-40 years	73	28.30	3.62	23.220	<0.001
	40-50 years	28	31.14	1.84		
	50&above	21	31.81	0.40		

The results of the ANOVA reveals that assumed significance value(p) is less than 0.05. The results proved that the level of satisfaction differ with age. We reject the hypothesis H_{0b}.Since the ANOVA test indicate that the significant difference exists among the different Age group for the Satisfaction.

The present study was also conducted a post hoc test (multiple comparison test) for identify which among the age group differs significantly. This was presented in the Table 6.

Table 6: Multiple Comparison Of Age Groups

(I) Age		Mean Difference (I-J)	Std. Error	Sig.
20-30 years	30-40 years	-3.37684*	.71225	.000
	40-50 years	-6.21833*	.92209	.000
	50&above	-6.88500*	1.01769	.000
30-40 years	20-30 years	3.37684*	.71225	.000
	40-50 years	-2.84149*	.87734	.001
	50&above	-3.50815*	.97733	.000
40-50 years	20-30 years	6.21833*	.92209	.000
	30-40 years	2.84149*	.87734	.001
	50&above	-.66667	1.13935	.559
50&above	20-30 years	6.88500*	1.01769	.000
	30-40 years	3.50815*	.97733	.000
	40-50 years	.66667	1.13935	.559

The result of the analysis indicates that differences exist between all the groups except 40-50 years and above 50 years.

- **Education Wise Classification Of Investors**

The level of education of the respondents are shown in the Table 7. It is clearly evident from the table that majority of the respondents (60 percent) are professionals and remaining of them (40 percent) are qualified up to a graduate level.

Table 7: Education wise classification of the Respondents

Education	Respondents	Percent
Degree	70	40.0
Professional	105	60.0
Total	175	100.0

Source: Primary data

Figure 3 presents the education wise classification of the investors in Ernakulam district. The study reveals that majority of the investors (60 percent) are professionally qualified while others (40 percent) have completedtheir graduate degree.

Source: Primary data

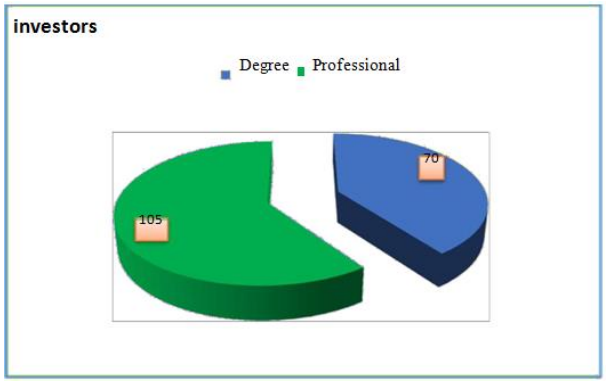


Figure 3: Education wise Classification

H0b: There is no significant difference in the satisfaction level of investors in relation toeducation.

H1b: There is significant difference in the satisfaction level of investors in relation toeducation.

One way ANOVAis used to test hypotheses about means when there are three or more groups of one independent variable. The result of the analysis is exhibited in Table 8.

Table 8: Means, Standard deviation and F value for Education

Variable	*Education*	*N*	*Mean*	*Std. Deviation*	*F*	*p value*
Level of satisfaction	Degree	70	30.43	2.03	33.190	<0.001
	Professional	105	26.64	5.25		

The results of the ANOVA shows that assumed significance value, (p) is less than 0.05. The results proved that the level of satisfaction differ with education of the respondent. We reject the hypothesis H_{0b}.Since the ANOVA test indicate that there is significant difference in level ofsatisfaction in respect of education. Therefore, weaccept H1b hypothesis.

Occupation Wise Classification Of Investors

Occupation wise classificationreveals that 60 percent of the respondents are private sector employees, 16.6 percent are professionals, 9.1 percent are businessmen and rest of the respondents are government servants, retired employees and others engaged in daily wage activities and unemployed persons. This was exhibited in the Table 4.

Table 9: Occupation wise classification of the respondents

Occupation	Respondents	Percent
Government/Semi-Government service	8	4.6
Private sector	105	60.0
Business	16	9.1
Professional Practice	29	16.6
Professional	4	2.3
Others	13	7.4
Total	175	100.0

Source: Primary data

Figure 4 showedthe occupation wise classification of investors. Majority of therespondents are private sector employees (60 percent), followed by professionals (16.6 percent), businessmen (9.1percent) andothers (including daily wage earners and unemployed persons) which constitute 7.4 percent.

Source: Primary data

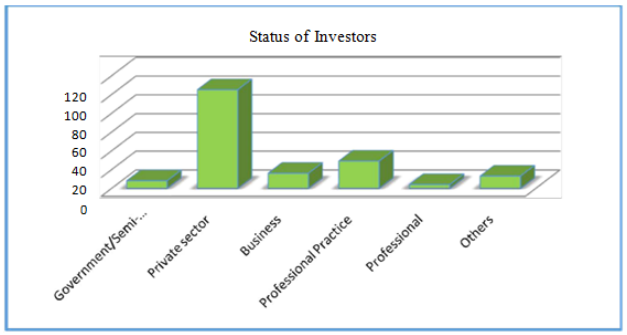


Figure 4: Occupation wise classification

H0b: The level of satisfaction does not differ with occupation.

H1b: The level of satisfaction differs with occupation.

A one sample analysis of variance(ANOVA) is used to test hypotheses that thereis significant difference in the satisfaction level of investors in derivative trading. The result of analysis is exhibited in the Table 10.

Table 10: Means, Standard deviation and z value for Occupation

Variable	*Occupation*	*N*	*Mean*	*Std. Deviation*	*F*	*p value*
Level of satisfaction	Government/Semi-Government service	8	31.50	0.53		
	Private sector	105	27.02	4.80	12.239	<0.001
	Business	16	24.25	4.58		
	Professional Practice	29	31.24	1.18		
	Professional	4	32.00	0.00		
	Others	13	32.00	0.00		

The results of ANOVA proved that significance level, P< 0.05. The results ofanalysis reveal that the level of satisfaction differ with occupation of the investors.

Hence we reject the hypothesis H_{0b}.Since the ANOVA test indicate that there is significant difference in the satisfaction level of investors. Therefore, we accept H1b hypothesis, the level of satisfaction differs with occupation.

The present study also conducted a post hoc test for identifying the investors level of satisfaction in relation to occupation revealed that their satisfaction level in derivative trading is significantly different. This was presented in the Table 11.

Table 11: Multiple Comparisons

(I) Occupation		Mean Difference (I-J)	Std. Error	Sig.
Government/Semi-Government service	Private sector	4.48095*	1.480	0.003
	Business	7.25000*	1.747	0.000
	Professional Practice	0.259	1.612	0.873
	Professional	-0.500	2.471	0.840
	Others	-0.500	1.813	0.783
Private sector	Government/Semi-Government service	-4.48095*	1.480	0.003
	Business	2.76905*	1.083	0.011
	Professional Practice	-4.22233*	0.847	0.000
	Professional	-4.98095*	2.056	0.016
	Others	-4.98095*	1.187	0.000
Business	Government/Semi-Government service	-7.25000*	1.747	0.000
	Private sector	-2.76905*	1.083	0.011
	Professional Practice	-6.99138*	1.257	0.000
	Professional	-7.75000*	2.256	0.001
	Others	-7.75000*	1.507	0.000
Professional Practice	Government/Semi-Government service	-0.259	1.612	0.873
	Private sector	4.22233*	0.847	0.000
	Business	6.99138*	1.257	0.000
	Professional	-0.759	2.152	0.725
	Others	-0.759	1.347	0.574
Professional	Government/Semi-Government service	0.500	2.471	0.840
	Private sector	4.98095*	2.056	0.016
	Business	7.75000*	2.256	0.001
	Professional Practice	0.759	2.152	0.725
	Others	0.000	2.307	1.000
Others	Government/Semi-Government service	0.500	1.813	0.783
	Private sector	4.98095*	1.187	0.000
	Business	7.75000*	1.507	0.000
	Professional Practice	0.759	1.347	0.574
	Professional	0.000	2.307	1.000

The result of analysis indicates thatthere is no significant difference in the opinion of investors. These investors are engaged in government service, semi- government service, professional service and other services.

Income Wise Classification Of Investors

The income wise classification of investors are presented in the table 12. The results shows that majority of the respondents (37.7 percent) earn Rs. 41,000 to Rs. 50,000 per month. Around 30.3 percent of the respondents earn more than Rs.

50,000per month. 20.6 percent of the respondent earn Rs. 31,000 to Rs. 40,000 per month.

Table 12: Income wise classification

Monthly income	Respondents	Percent
Rs. 20000 to Rs.30000	20	11.4
Rs. 31,000 to Rs. 40,000	36	20.6
Rs.41, 000 to Rs 50,000	66	37.7
Rs 50,000 and above	53	30.3
Total	175	100.0

Source: Primary data

Figure 5 illustrate the monthly income of the investors in Ernakulam district. Out of the 175 respondents, 37.7 percent earn a monthly income of Rs. 41,000 to Rs. 50,000, followed by 30.3 percent of the respondents' earnings was above Rs. 50,000. 20.6 percent of respondent earns monthly income of Rs. 31,000 to Rs. 40,000.

Source: Primary data

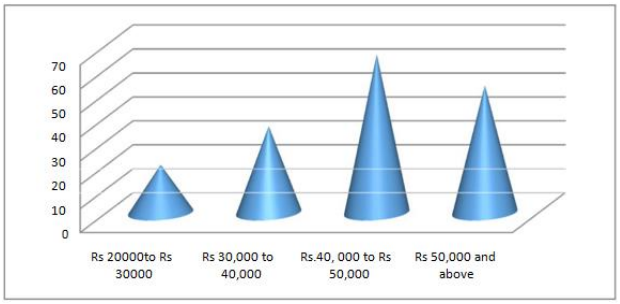


Figure 5: Income wise classification of Investors.

H0b: The level of satisfaction does not differ with income. H1b: The level of satisfaction does differ with income.

A one sample analysis of variance (ANOVA) is used to test the hypotheses that there is no significant difference in the satisfaction level of investors. The result of the analysis is shown in the Table 13.

Table 13: Means, Standard deviation and F value for Income

Variable	*Income*	*N*	*Mean*	*Std. Deviation*	*F*	*p value*
Level of Satisfaction	Rs 20000to Rs 30000	20	27.20	4.37		
	Rs 30,000 to 40,000	36	24.67	5.30	21.016	<0.001
	Rs.40, 000 to Rs 50,000	66	27.77	4.50		
	Rs 50,000 and above	53	31.36	1.23		

Source: Primary data

The results of the ANOVA proved that assumed significance valueis less than 0.05. The results revealthat the level of satisfaction differ with income of the respondent. We reject the Null hypothesis and accept the Alternative hypothesis. The test resultsindicate that there is significant difference in the satisfaction level of investors in Futures and Options trading activity.

A post hoc test was also conducted to identify whetherthe income groups differs significantly. This was presented in the Table 14.

Table 14: Multiple Comparisons

(I) Income		Mean Difference (I-J)	Std. Error	Sig.
Rs 20000to Rs 30000	Rs 30,000 to 40,000	2.53333*	1.116	0.024
	Rs.40, 000 to Rs 50,000	-0.573	1.022	0.576
	Rs 50,000 and above	-4.15849*	1.050	0.000
Rs 30,000 to 40,000	Rs 20000to Rs 30000	-2.53333*	1.116	0.024
	Rs.40, 000 to Rs 50,000	-3.10606*	0.829	0.000
	Rs 50,000 and above	-6.69182*	0.864	0.000
Rs.40, 000 to Rs 50,000	Rs 20000to Rs 30000	0.573	1.022	0.576
	Rs 30,000 to 40,000	3.10606*	0.829	0.000
	Rs 50,000 and above	-3.58576*	0.738	0.000
Rs 50,000 and above	Rs 20000to Rs 30000	4.15849*	1.050	0.000
	Rs 30,000 to 40,000	6.69182*	0.864	0.000
	Rs.40, 000 to Rs 50,000	3.58576*	0.738	0.000

The result of the analysis indicates there is significant variations between all the income groups except Rs. 20000 to Rs. 30000 income category and Rs.40, 000 to Rs 50,000 category.

DERIVATIVE TRADING – AN INSIGHT

Derivatives trading is dominating the commodity and financial market all over the world. Trading in derivative instruments require familiarization with basics, its purpose, trading practices,type of instrument, level of risk involved, experience and frequency in trading, amount of risk covered, and sources influenced in trade.

Experience Wise Classification Of Respondents

An insight into the derivative trading showed that the experience of respondents in the stock market has a significant role in derivative trading. Majority of the respondents (51.9 percent) has an experience of 5 years and below, followed by respondents (38.9 percent) with 6 to 10 years. Hardly 2.9 percent of respondents has an experience ranging from 15 years and above.

Table 15: Experience wise classification of Respondents

Experience in stock market	Frequency	Percent
5years and below	90	51.4
6 to 10 years	68	38.9
11 to 15 years	12	6.9
15 years and above	5	2.9
Total	175	100

Source : Primary Data

Figure 6 shows that experience of investors in the stock market. Out of the 175respondents 51.4 percent has an experience of 5 years and below. Investors (38.9percent) had an experience ranging from 6 to 10 years. The remaining respondents (6.9 and 2.9 percent) had an experience of more than 10 years.

Source: Primary data

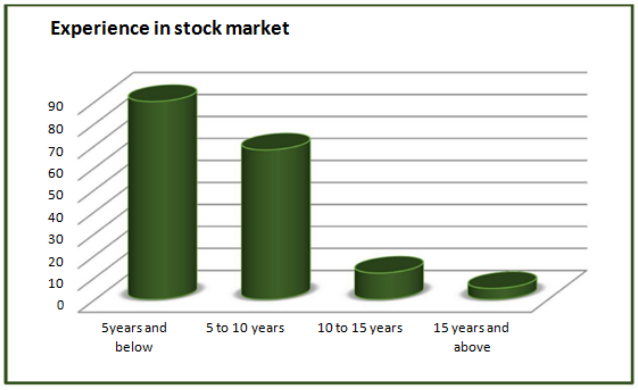


Figure 6: Experience wise classification of investors.

Experience In Derivative Trading

In Table 16 the experience wise classification of the investors engaged in derivative trading shows that most of the investors(34.3 percent) trading in derivatives has an experience of 3 to 4 years, followed by investors (30.9 percent) with an experience of 1 year or less. Out of the 175 investors, 29.7 percent of the investors had an experience ranging from 1 to 2 years.

Table 16: Experience in Derivative trading

Years of experience in derivatives trading	*Frequency*	*Percent*
Less than 1 year	54	30.9
1 to 2 years	52	29.7
3 to 4 years	60	34.3
5 years and above	9	5.1
Total	175	100

Source: Primary data

Figure 7 shows that experience in derivative trading plays a dominant role in investor satisfaction. Among the 175 investors engaged in Derivative trading, 34.7 percent of the investorshad year exposure of 3 to 4 years in the trading,30.9 percent with less than 1 year experience,29.7 percent with 1 to 2 years of experience and a minority (5.1 year) with 5 or more than 5 years of experience.

Source: Primary data

Figure 7: Experience in Derivative trading.

Frequency In Future And Options Derivative Trading

The frequency in derivative trading in among investors in Ernakulam district is shown in the Table 17. Majority of the investors in Ernakulam (39.4 percent) trade in derivatives frequently. Investors doing occasional trading constitute 34.9 percent. Only 14.3 percent of the investors always trade in derivatives.

Table 17: Frequency in derivative trading

How frequently do you trade in derivatives	*Frequency*	*Percent*
Rarely	20	11.4
Occasionally	61	34.9
Frequently	69	39.4
Always	25	14.3
Total	175	100

Source: Primary data

Figure 8, shows the frequency of derivative trading among 175 respondents. The figure shows that almost every investor in Ernakulam is trading in derivatives frequently (39.4 percent), followed by investors doing occasional trading (34.9 percent). Only 14.3 percent of investors are always engaged in Future and Options trading.

Source: Primary data

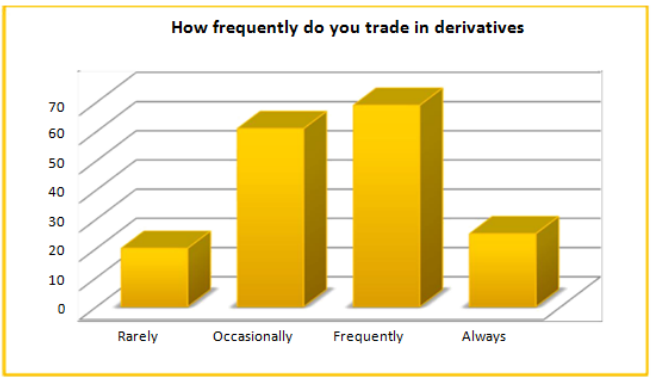


Figure 8: Frequency in derivative trading

Future And Options Trading – Risk Endurance

Table 18 shows the level of risk tolerance among the investors engaged in Futures and Options trading in Ernakulam District. Among the 175 investors, 48.6 percent are ready to accept a medium level of risk in their investment.26.3 percent of the investors are willing to face high level of risk in their investment meanwhile only 16 and 9.1 percent of the investors ready to take very low risk on their investment.

Table 18: Investor's personal level of tolerance for investment risk

Personal level of tolerance for investment risk	*Frequency*	*Percent*
Very Low	16	9.1
Low	28	16.0
Medium	85	48.6
High	46	26.3
Total	175	100

Source: Primary Data

The investor's level of risk endurance in their investment is shown in the figure 9. Majority of the respondents (48.6 percent) are ready to accept medium investment risk, followed by 26.3 percent with high investment risk, 16 percent with low investment risk and 9.1 percent with very low investment risk.

Source: Primary Data

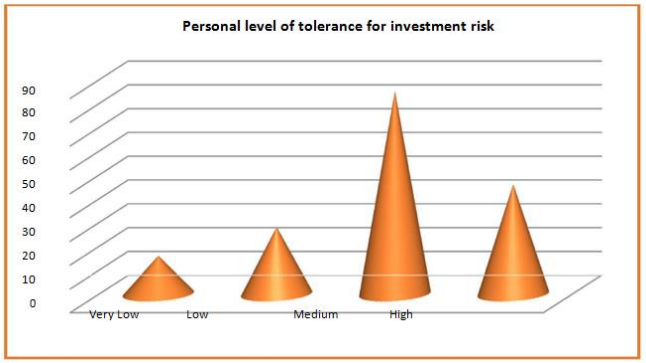


Figure 9: Investors level of tolerance for investment risk

CONCLUSION

From this study it is concluded that the Options give more returns compared to futures. Thestock market will give high returns to the investors who can bear high risk. Where derivatives are ainstrument used to minimize the risk and covered the loss occurred in the stock market. The options will give more returns and less risk when compared to futures". The investor's preference towards the Futures and Option are influenced by various factors. The investors like to invest in those financial instruments which yield high returns with minimum risk. The derivative instruments are a perfect blend of both risk and returns. This level of satisfaction. From the study we arrive at some useful conclusions, ™ The main factors which induced the customer to trade in financial derivatives is the based on the opinions of the experts, professionals and stock brokers. Thus we need to focus on training the market participants, so that they give the right information to the investors.The study revealed that complexity research is intended to analyse the individual investors for the reasons in choosing to trade in Futures and Options, their risk and returns, problems faced during such trading and of the instrument and its trading posed a great difficulty for the investors to trade in Exchanges.

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