

## An Analysis Of Preferences Of Retail Traders Of Nagpur In The Futures & Options (F&O) Market

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### **Abstract**

Trading in Financial instruments like shares has been an integral part of retail traders in the share market. However the emergence of Futures & Options (F&O) in India has been a milestone in the history of Capital markets. Futures and Options are a part of the Financial Derivative Instruments. The basic purpose of financial derivatives is risk management. However the very purpose for which these derivatives should be used is sidelined and more of speculative activities are done on these instruments. There is ease of trading in derivatives due to emergence of online trading software and mobile application. The volume of speculations by retail traders who are generally not trained to deal in derivatives is on a rise in the capital markets in the country. The retail traders of Nagpur are not behind in the volumes of derivative trading.

This study is all about understanding the preferences of retail traders of Nagpur in the derivatives market. It will study their preferences of derivative products, their objective behind trading and their strategies to trade. This study will also analyse the demographical factors and will try to understand their impact in the decision making while trading.

**Keywords:** Futures, Options, Derivatives, Risk management, Speculation.

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### **I. Introduction**

This research paper is all about the study and analysis of preferences of retail traders of Nagpur in the futures & options markets. It has been of utmost importance that the emotions of retail traders have been overruling the rationale of formal training. Greed for earning easy money has led to the use of derivative products for the purpose of speculation keeping aside their basic characteristics of hedging and arbitration. The need of this paper was to bring to the notice of the society the actual preference of Nagpur retail traders and the results thereof

**FINANCIAL DERIVATIVES:** Financial markets are, by nature, extremely volatile and hence the risk factor is an important concern for financial agents. To reduce this risk, the concept of derivatives comes into the picture. Derivatives are products whose values are derived from one or more basic variables called bases. These bases can be underlying assets (for example forex, equity, etc.), bases or reference rates. For example, wheat farmers may wish to sell their harvest at a future date to eliminate the risk of a change in prices by that date. The transaction in this case would be the derivative, while the spot price of wheat would be the underlying asset. This paper specifically focuses on the products Futures & Options.

### **STOCK BROKING BUSINESS IN NAGPUR:**

Nagpur is an emerging metropolis. In 2004, it was ranked the fastest-growing city in India in terms of the number of households with an annual income of Rs. 1 crore (10 million) or more. Nagpur has been the main centre of commerce in the region of Vidarbha since its early days and is an important trading location. Although, Nagpur's economic importance gradually declined relative to Mumbai and Pune after the merging of Vidarbha into the Maharashtra because of a period of neglect by the state government, the city's economy later recovered. Now Nagpur is once again on the development track.

Nagpur has seen a substantial growth in the numbers of stock brokers and sub-brokers across the city. The introduction of V-SAT technology and reduction in cost to put up stock broking terminals has been important factors behind this growth. Also Professionals like Chartered Accountants, Company Secretaries, etc. have also taken interest in setting up Stock market trading business as an additional income source. Although after the panic of 2009, a substantial number of these firms have closed down due to less volumes of trade not making the project non-feasible. One of the major examples is the IL&FS Investments Ltd. This could not sustain for long in the Nagpur market. Also, Instances like Wansankar Investments were responsible for degrading trust in the mind of retail investors towards Stock brokers.

The introduction of Online trading facilities to retailers by Major Stock Broking firms led to reduction in the number of physical set ups of stock brokers in the city. Online trading has its own advantages and thus is picking up for those who have spent enough time in the markets. It avoids issues like wrong trade execution, confusion in understanding a trade by the operator but attracts a disadvantage of full time involvement of the retail investor in case of open positions in the markets.

### **THE DABBA SCAM AT NAGPUR**

The crime branch's economic offences wing (EOW), assisted by Securities and Exchange Board of India (SEBI), conducted sweeping search and seizure actions across the city of Nagpur during mid May 2016. They unearthed a well-connected, widespread network of illegal interstate 'dabba trade' or private stock exchange in the unprecedented action. The massive action included raids at 11 places with 8 offences registered at different police stations against 20 accused. The raids exposed several thousand crores worth 'dabba trade' operating out of the city, with its network spread to other states like Madhya Pradesh and Chattishgarh. Dabba Trade is the trading done between two parties on stock and derivative products without any supervision of the exchange.

### **STATEMENTS OF HYPOTHESES:**

#### **Hypothesis 1**

- $H_0$  : Derivatives traders of Nagpur prefer speculation as the objective behind trading.
- $H_1$  : Derivatives traders of Nagpur do not prefer speculation as the objective behind trading.

#### **Hypothesis 2**

- $H_0$  : Derivatives traders of Nagpur prefer well defined strategies in their trading decisions.
- $H_1$  : Derivatives traders of Nagpur do not prefer well defined strategies in their trading decisions.

## **II. Research Methodology**

This research being a mix of quantitative and non-quantitative subject, the questionnaire method was adopted to collect the primary data. Apart from it personal interviews were conducted with some of the retail traders. However the secondary data was taken from the reference articles of market experts.

A sample of 100 Retail traders involved in the trading of futures & options were selected from in and around Nagpur city. The sample represented all the possible classifications of age, gender, profession & experience.

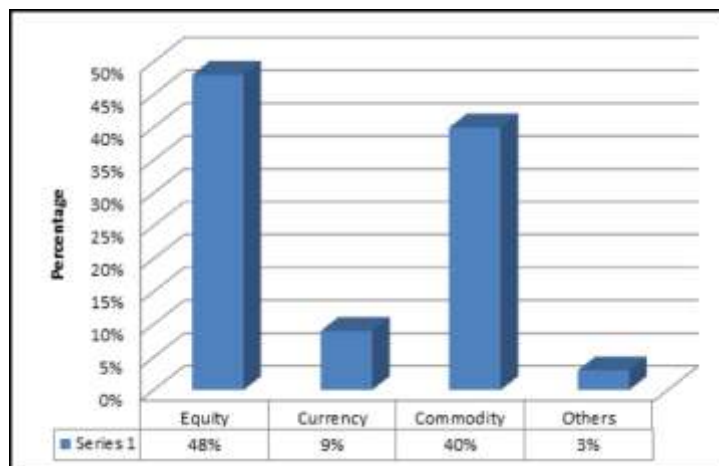
## **III. Findings Of The Research**

It is observed that most of the young male members in the age group of 26-45 are involved in futures and options trading in Nagpur. Maximum participation is of private professionals like CAs, CSs, Doctors, etc.

Equity Derivatives is most preferred by Nagpurians followed by Commodity Markets, However Currency derivatives market is a far dream with very less participation.

### **PREFERRED DERIVATIVE MARKET**

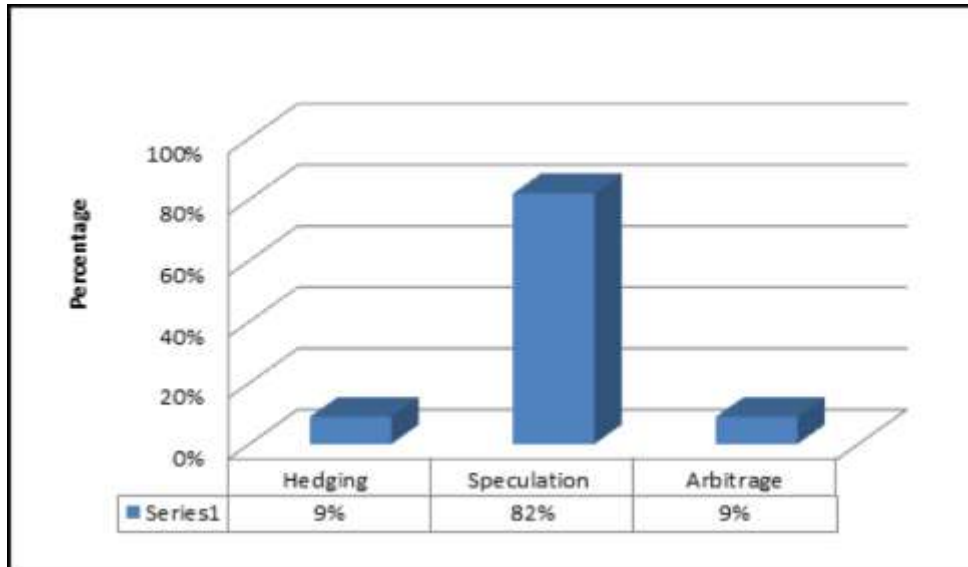
The most preferred derivatives market is Equity with 48% respondents being active in it. Followed by the next choice, Commodity market being 40%. Only 9% Nagpurians derivative retail players are active in Currency Derivative Market. However a negligible 3% participate in the other complex derivatives.



**Figure 1 : Type of Derivative Market Preferred**

**PURPOSE OF TRADING**

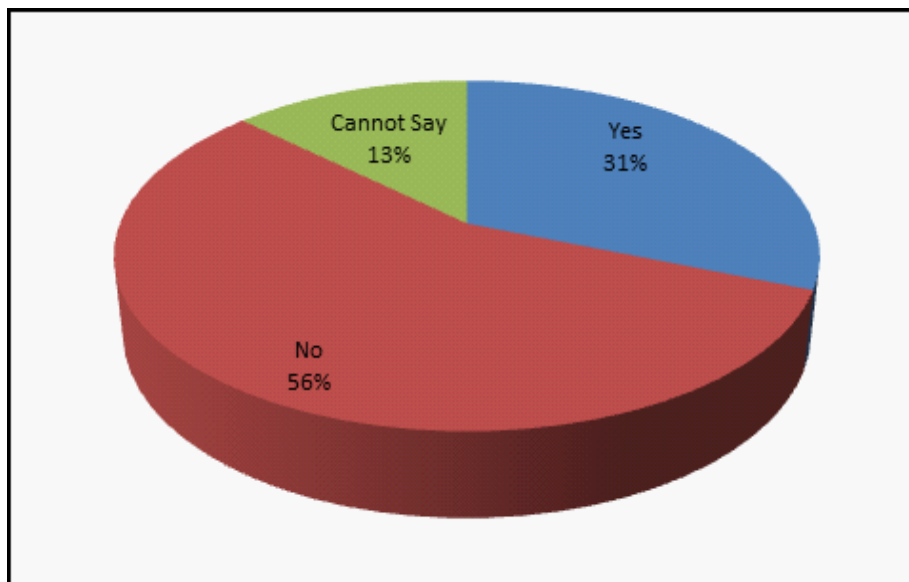
The study showed that most of the retail traders have sidelined the basic purpose of hedging and arbitration during derivative trading. The Question “For what purpose do you use derivative trading?” had a tilted response. 82% of the respondents say that they use derivatives for Speculation, however only 9% use for hedging their positions in the market and remaining 9% for arbitration.



**Figure 2:** Purpose of Trading Activity

**USE OF STRATEGIES**

The advancement of technology also provides various tools in the hands of traders to orient traders about use of strategies in derivative trading. However almost 56% retail traders do not use any well defined strategy for derivative trading and depend on their own gut feel and emotions while trading in derivatives.



**Figure 3:** Use of Strategies

**IV. Conclusion**

The facts and figures of the study clearly reflect that most of the retail traders in Nagpur are young professionals who have taken the undesirable path of Speculation against Hedging as their purpose of trading. To add to the problem, most of the traders hardly use any formal strategies while opening their trade positions in the derivative markets. They trade in excessive leveraged positions and use the tips received from brokers and other traders as a base of trading.

Therefore the first hypothesis is accepted: Derivatives traders of Nagpur prefer speculation as the objective behind trading.

And the second hypothesis is rejected: Derivatives traders of Nagpur prefer well defined strategies in their trading decisions. That means they do not prefer well defined strategies in their trading decisions.

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