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"A study of the difficulties encountered by new traders in the derivatives market of India"

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Abstract
The derivative market is critical to the country's economic development. In this paper, we will look at the challenges that new traders in equity derivatives face. Several studies on equity derivatives have been conducted. Here, we'll look at the challenges that new traders face and the possible outcomes. Following the COVID-19 pandemic, derivatives have grown in popularity. This has grown at an astonishing rate across India, and it is now known as derivatives resolution. We gathered primary and secondary data for this study in order to highlight the current situation. This study provides us with a comprehensive overview of the Indian derivatives market. This study provided new information on current trends.

Keywords: Derivatives, Option, Challenges, Financial market, India.

Introduction to the industry
The purpose of the investment industry is to serve its clients. Investors and issuers are his two primary client groups. Individuals, charities, corporations, banks, collective investment schemes such as pension and insurance funds, central and local governments, and "supranational institutions" such as the World Bank are all examples of investors. The investment environment is highly dynamic and ever-changing. Those who take the time to learn the fundamentals and different asset classes, on the other hand, will come out ahead in the long run. The first step is to learn to differentiate between different types of investments and where they fall on the risk spectrum. The investor's investment objective is then to increase assets (capital growth) or generate income. Some investors have only one of these objectives, while others have both.

Derivative market
Derivatives are among the most adaptable instruments. The word derived is derived from the word result. Indicates that no independent values exist. A product is a contract whose value is determined by the value of another asset, known as the underlying asset, which could be a stock, stock market index, interest rate, commodity, or currency. The derivative contract identifier is underlying. If the

underlying asset's price changes, the derivative's value will change as well. Without an underlying asset, derivatives are meaningless. The value of a gold futures contract, for example, is derived from the value of the underlying asset. In this example, H. Gold's off-derivative market price is determined by the underlying gold's spot or spot market price.

Review of Literature:

The researcher went through various literatures available on this subject. Numerous books, reports, news articles, research articles and studies were thoroughly studied. Context to some of the books, articles read and various websites visited is given below:

Prof. J R Varma Committee Report, submitted to SEBI in October 1998. The Committee was appointed by SEBI to recommend measures for risk containment in derivatives market in India. The committee enumerated the risk containment issues that assume importance in the Indian context such as estimation of volatility, calendar spreads, trader net-worth, margin collection and enforcement, Clearing Corporation, position limits, legal issues etc. These recommendations were adopted by SEBI to govern the risk management framework for derivatives market in India.

Gulliksson, M., & Mazur, S. (2020) studied portfolio construction with a single covariance matrix. Study explored convergence properties gives a solution as better than the solutions that are based on constrained least norm Moore–Penrose, Lasso, and naive equal-weighted approaches. It confirms that the optimal portfolio weights that are obtained by DFPM and Moore–Penrose inverse methods can be modelled by white noise process.

Basha, S. M., & Ramaratnam, M. S. (2017) analyzed nifty midcap 150 stocks for optimal portfolio construction from 2011 to 2016. Sharpe single index model applied to find out excess return to beta and calculation of cut-off point. Study confirms that the 150 stocks of midcap only 25 scripts covered in final portfolio. It's found that pharma stocks weightage will be more than the other sectors stocks.

Basanna, P., & Konnur, N. P. (2019) Study undertaken to construct optimal portfolio using Sharpe single index with Nifty 50 index. For construction portfolio daily closing prices took from the period of four year i.e., 2014 to 2019. It is found that stocks selected for optimal portfolio is consumer non-durables (3 stocks), consumer durables (1 stock), and finance (3 stocks) and agree based sectors (1 stock)

Greeshma Francis (2019) had done a study on emerging trends in Indian Derivative Market. Through that researcher attempted to analyse different kinds of derivative market and its recent developments in the Indian commodity market.

Ms. Shalini H S, Dr. Raveendra P V (2014) had studied many aspects of the Indian derivatives market as well as the Global derivatives. Such as scope, concept, types, history, regulations, market, trend, growth and its future. They also study the challenges and status of Indian derivative market as well as Global derivative market.

Dr. Y. Nagaraju (2014) studied investors' perception towards the derivative market and instruments. He found that the main reason for not investing in derivatives are lack of knowledge and complexity of the nature of instrument.

Suresh narayanarao (2013) his studies conducted to establish the framework to understand the relation in performance of the derivatives of BSE and NSE in India. It also helps to analyse the relationship between cash market and the market volatility.

Neel Kamal Purohit (2013) his research were resulted that income of investors have a great impact on frequency of trading in stock market.

Sahoo (2012) reveals that the legal framework for the derivatives trading is very important in the regulatory framework for the derivative market. He also suggest that the aim of regulation should encourage the efficiency and competition.

Shanmnga Sundaram V (2011) stated in his study that different dimensions of the investors' behaviour influence the investors' decision making. He also examined the impact of the behaviour dimensions in capital market.

Reddy and Sebastian (2008) studied the temporal relationship between the equities market and the derivatives market. He also examined the price innovations appeared in derivative market and equity market.

Problem Statement

The researcher began the study with the following issues in mind.

- India's derivatives market is expanding rapidly, but more needs to be done to increase participation in equity derivatives trading, including educating the general public.
- Due to the lack of delivery-based settlement, many investors do not participate in the derivatives market. This could also lead to the introduction of a new type of product to the equity derivatives market.
- The physical/cash market structure is critical for the growth of an efficient futures market. The equity derivatives market does not trade many listed securities. This is due to the fact that the index is composed of a small number of these frequently traded indices, which are primarily used to hedge seven positions taken in equities that are not available in the equity derivatives market. As a result, index concentration and volatility can be high.
- The trading basket should be expanded to give investors more options for investing and/or trading in the equity derivatives market.

Objective of the study

- Gain an understanding of the Indian equity derivatives market.
- Research on emerging trends in India's derivatives market.
- Investigate the problems in the derivatives market caused by government policies.
- Research on the issues that traders and intermediaries face in the equity derivatives market.

Research Methodology:

The data for the study of the derivatives market in India was gathered from both primary and secondary sources. The data was collected in the first stage from published work of the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE), and the Securities and Exchange Board of India (SEBI), as well as other data available in libraries, books and journals, and on the internet. The primary data was collected in the second stage by designing questionnaires for investors and intermediaries.

Population

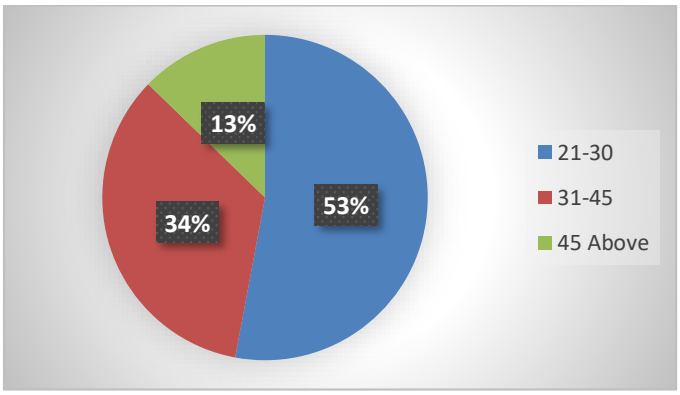
The entire set of traders is considered the population size of this research in this study. This study focuses on new traders who have entered the market within the last year to three years and the major challenges they face.

Sample Method:

We took a sample of 200 traders who had recently entered the stock market for derivatives trading such as futures and options. We distributed a questionnaire with questions about trader characteristics, risk capacity, trading medium, and so on. In this study, we used a simple random sampling method to investigate the issues and challenges faced by new traders.

Data Analysis and Interpretation

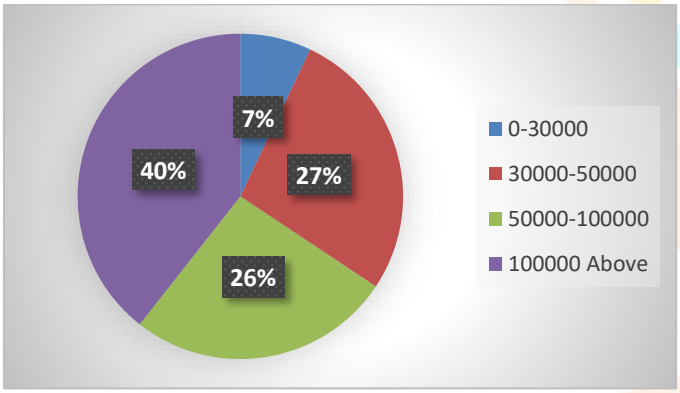
Age of Respondents



Source: Primary Survey, 2022

We collected 200 responses at random from people. The responses were divided into three age groups, with the age group of 21-30 years being largely taken as a sample size. New traders enter the market during this age group. Some of them left after suffering frequent losses, while others learned and traded frequently and profited handsomely.

Income status of respondent

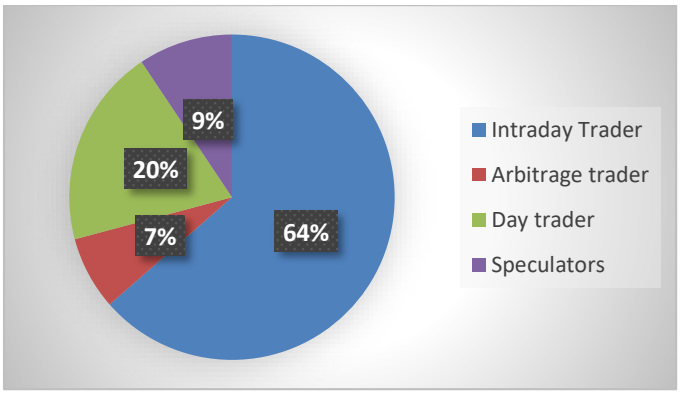


Source: Primary Survey, 2022

The responses are classified into four income levels. It was discovered that 40% of people with an income of more than 100,000 Rs. engage in frequent trading. Similarly, 27% of people with incomes ranging from $50,000 to $100,000 engage in active trading. We discovered that only 7% of people with incomes less than $30,000 are actively trading.

The primary issue for new traders is proper budgeting. People are actively trading without considering their risk tolerance. People should start trading based on their income.

Types of traders

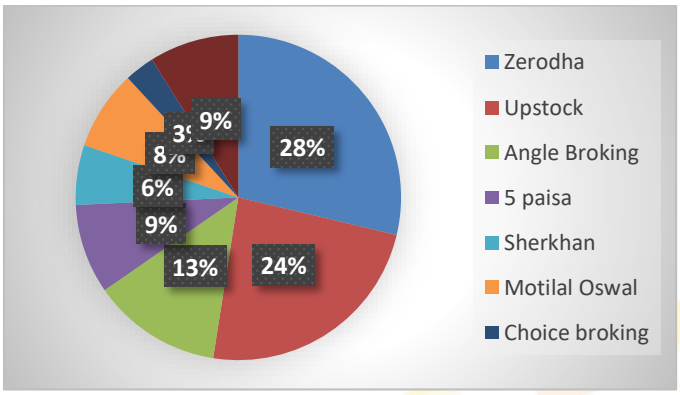


Source: Primary Survey, 2022

According to this analysis, there is a large group of traders (64%), who engage in intraday trading. Arbitrage traders, day traders, and speculators are other types of traders. Day traders account for 20% of all traders. There are 9% of traders who are speculators, and there are only 7% of traders who are involved in arbitrage trading.

To track the market, a trader should initially focus on increasing his or her speculative activity. A trader should only do paper trading by testing different chart patterns because this is one of the primary reasons why traders lose money.

Platform they are using for trading



Source: Primary Survey, 2022

According to the data analysis presented above, 29% of traders use Zerodha as a broker and Upstock as a trading platform. Traditional brokers, such as Sherkhan, Motilal Oswal Financial Services, Choice Equity Broking, and others, are used by a few brokers.

A trader should choose a broker wisely at the start of their trading career because there are significant differences in terms of charges and services. The above table highlights the key differences between traditional brokers and discounted brokers.

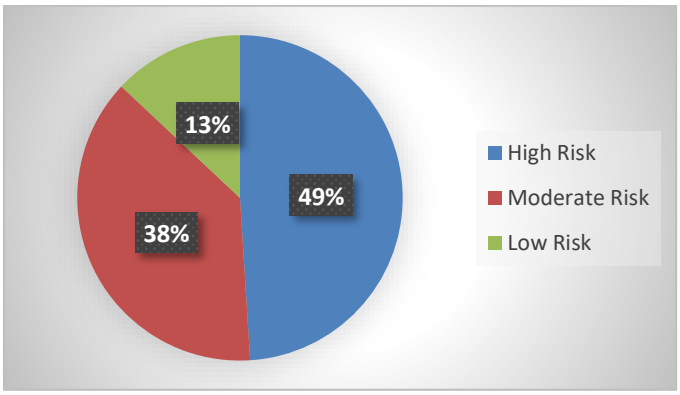
Mainly two types of brokers are there in the stock market.

1)Traditional Brokers: A traditional broker offers its clients a wide range of services, including trading (stocks, commodities, and currency), advisory, research, asset management, and retirement planning. A traditional broker typically allows you to trade a variety of financial instruments, including forex, mutual funds, pension plans, insurance, bonds, IPOs, and FDs.

Because of these extra features, traditional brokers have a high operating cost. They charge significantly higher commissions than discount brokerages. This could eat into your profits in the long run, especially if you trade frequently in a short period of time. If you have a large brokerage budget and the means to find someone to manage your money and investments, a traditional or full-service broker may be the best option.

2) Discounted Brokers: On the other end of the spectrum, a discount broker provides essential services such as buy and sell orders execution. Simultaneously, their low operating costs allow them to devote more resources to their technology. This translates into fast, smart, and cutting-edge technology available to traders at a low cost. Full-time advisory services and investment ideas are free of charge. Instead, they invest in software enhancements to provide real-time data on multiple platforms, including desktop, web, and mobile.

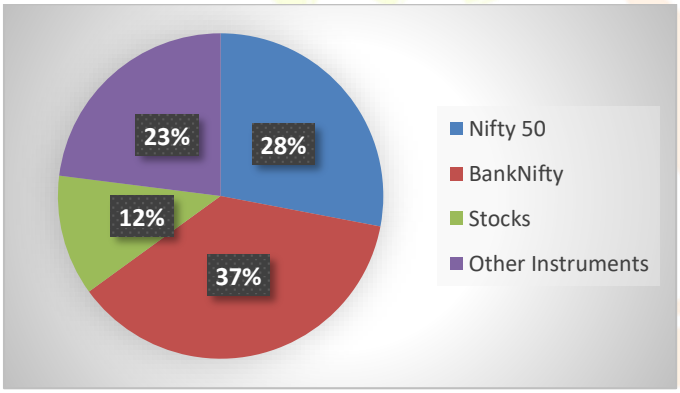
Investors risk taking ability



Source: Primary Survey, 2022

No one wants to take low returns, so more investors are willing to take high risks. In the case of High risk, a high percentage of 49% is observed. Only 38% and 13% are observed for moderate and low risk, respectively. High risk equals high profit. Since traders suffer heavy losses in the early stages due to a lack of awareness or other factors.
As a result, at the beginning, traders should concentrate on learning various trading patterns and techniques.

Trading Instrument



Source: Primary Survey, 2022

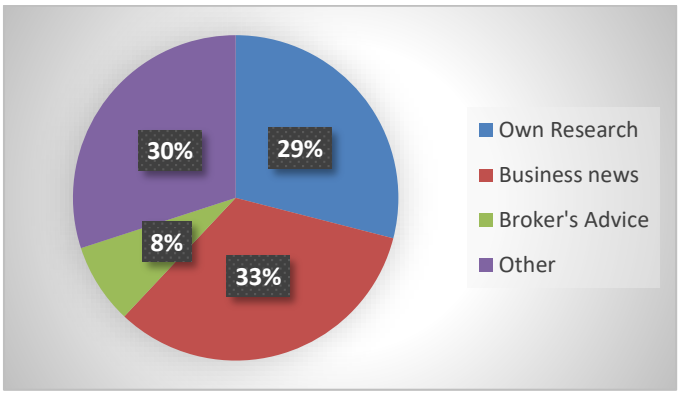
According to the data collected, the majority of traders trade the Bank Nifty,which is an index of banks. The majority of traders are involved in Nifty 50 after Bank Nifty. The percentages for stocks and other instruments are 12% and 23%, respectively. There is an option chain for stocks and indices that describes the call and put options and allows traders to conduct trade analysis.

Investors behaviour towards online trading:

While analysing the future prospects of online stock trading among various investors, it was discovered that investors believe that in the future, online trading will become more trustworthy, reduce transaction costs, and provide large-scale investment opportunities.

It was also discovered that being unable to trade (being able to log in but not trade), having a wait and watch attitude, and the risk of system failure were the key areas in which respondents were extremely concerned, i.e. safety issues with discount brokers.

Technical charts and indicators

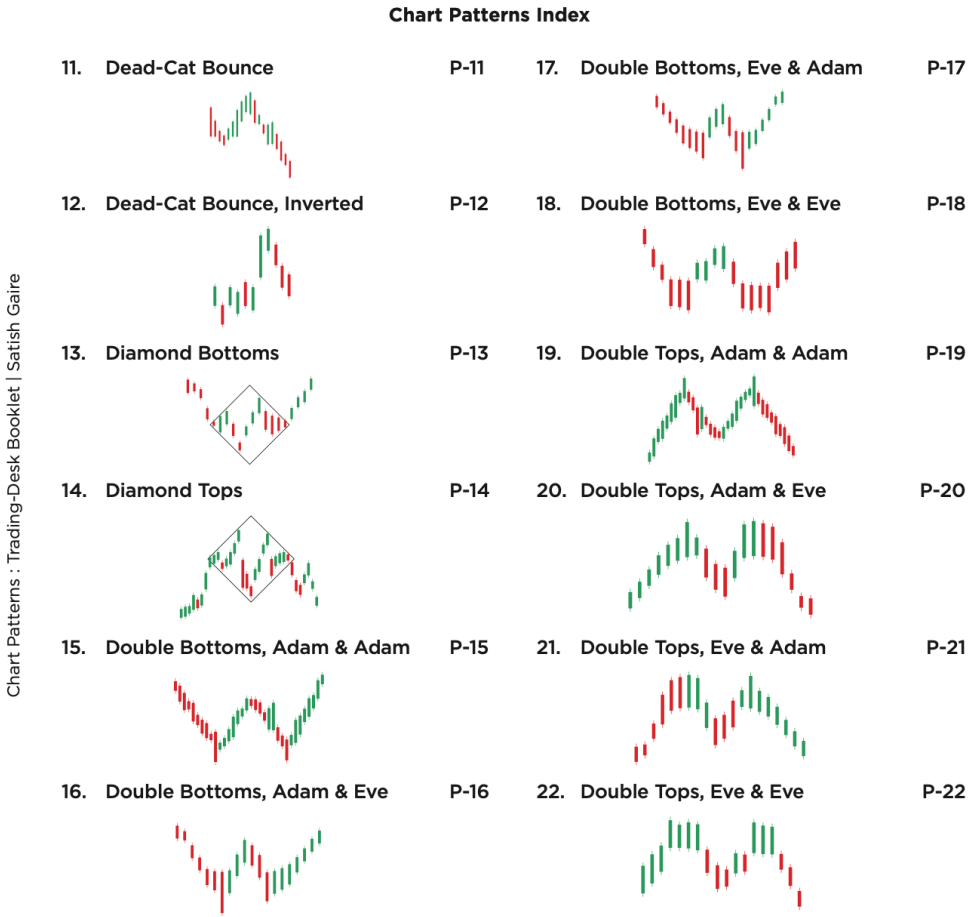


Source: Primary survey, 2022

According to the data gathered, 29% of traders conduct their own research before trading in the market. While 34% of traders trade based on business news. Only 8% of traders trade using broker recommendations.

Initially, traders rely on other sources such as Telegram links, WhatsApp groups, and unauthorised trader advice. There are numerous authenticated software programmes available through which traders can learn to analyse charts and patterns.

There are a few examples of chart patterns that can be used to analyse stock price movement.



Results and Findings

- The presence of conditional volatility in stock future prices is observed in all of the sampled stocks, according to the study of conditional volatility in stock future prices.

- It is also observed that conditional volatility persists across all stock futures.
- The study's findings indicate that retail investor trades have a significant impact on the price volatility of stock futures.
- It has also been discovered that increased retail investor participation reduces price volatility and vice versa.
- According to the study, the NSE equity and equity derivative trade volumes are co-integrated and have a long run relationship.
- It has been discovered that trading by all investors at the NSE F&O market affects trade volumes at the equity market.
- Based on our analysis, institutional investor trades (both FII and DII) at the NSE equity derivative market are significant in causing trades in the equity market.
- FII and DII trade volumes at the NSE F&O market have a greater ability to explain variation in spot market trade volumes.
- It has been discovered that trades in stock and index futures have a significant impact on equity market trade volumes.
- According to a study of speculation at the NSE equity derivative segment, speculation in option products, such as stock options and index options, is higher than speculation in future products.

Conclusion

The study concluded that there are significant differences in how the BSE and NSE handle derivatives. The trading volume and number of contracts traded reflect this. Despite tremendous growth, the Indian derivatives market has yet to catch up with the global derivatives market. Given many of the current changes, the Indian derivatives market is poised to continue growing and maturing, allowing a broader range of participants to participate in various asset classes.

The Indian futures market has plenty of room for expansion and is showing signs of doing so across global platforms. Strict regulation strengthens our financial structure and expands our knowledge of the derivatives market, increasing investor confidence and derivatives trading.

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