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EXPLORING FACTORS AFFECTING RETAIL INVESTORS AWARENESS AND INVESTMENT PREFERENCE TOWARDS FINANCIAL DERIVATIVE INSTRUMENTS

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ABSTRACT
The present study focuses on the factors affecting retail investors awareness and investment preference towards investment in financial derivative instruments, in order to achieve this objective survey was administered using a google form, consisting structured questionnairewhich was shared among 119 retail investors ,who constitute the sample and were active investors in derivatives trading in Bidar city, India. In this study factor variables such as Awareness, Product innovation Perception Price discovery, volatility, Risk management and returns were constructed. Hypothesis were formulated to investigate the relationships between the Awareness (dependent variable) and Product innovation Perception Price discovery, Risk management and returns(independent variable) Data collected were analyzed with the help of SPSS version 25 and AMOS version26. Following analysis were carried out such as reliability test, Exploratory factor analysis, multiple regression descriptive statistics mean, standard deviation correlation coefficient .The results of the present study revealed that the respondents are having awareness of investing in financial derivatives. The factor score revealed that respondents agree that they are aware of all the stated factor variables. They feel that most influential factors for investment in derivative instruments are risk management and returns. The highest preference reason in investing in financial derivative is perception, price discovery, risk management and returns.
Keywords: Derivative financial instrument, Factors affecting Derivative investment, Investment preference in derivative instrument, Retail investors, Bidar city

1. INTRODUCTION

Bidar is a hill top city in the north-eastern part of Karnataka state in India. It is the headquartersof the Bidar district which borders Maharashtra and Telangana. It is a rapidly urbanizing city in the wider Bidar Metropolitan area. The city is well known for its many sites of architectural,historical and religious importance.[22] Bidar city population 214,373 ,average literacy percentage as per 2011 statistical data 85.90% [23]

In India trading in derivatives commenced in June 2000 with index futures on NSE. The market regulator securities & Exchange Board of India (SEBI), has been taking active steps to increase liquidity in the available contracts to make the market more robust and viable for all kinds of investors. There are various factors which affect the retail investors investment preference into financial derivatives. The present study aims to discover the most influential factors affecting retail investors awareness and investment preference towards investment in financial derivative instrument.

The layout of the article includes: Introduction, Literature review, research methods, research results and conclusion.

2. LITERATURE REVIEW

2.1 Growth of Derivative market in India

Financial Derivatives contribute a lot to the development of financial system which results in the development of nation's economy. India's experience with the launch of equity derivatives market has been extremely encouraging and successful. The derivatives turnover on the NSE hassurpassed the equity market turnover (Ashutosh; Satish,(2019)[1]. Derivative market is growingvery fast in the

Indian Economy (Shiv Singh Sarangdevot; Yuvraj Singh Rathore ,2014)[2].
Equity derivative market experienced shifts in the share of different derivative products (Gangineni Dhanaiah,2017)[3].Few authors are of the opinion that, overall performance of both exchanges(NSE and BSE) needs to be improved and that most of the traders are reluctant to trade in derivatives because of risk factor (Caroline Priyanka Koorse ,2015)[4]. SEBI has to takecrucial steps for development in Derivative market (Subbalakshmi**, 2016**)[5].

2.2 Investors Investment preference in financial derivative

Investors prefer investing in financial derivatives to have following advantage such as hedging his/her risks, diversifying his/her portfolio, risk management, leverage, arbitrage, speculation, liquidity and also it helps in global diversification and hedging against inflation and deflation. The reason for investors preference in derivative instruments depends upon the investment objective such as Risk, Return, Safety and Liquidity of the investment (Renuka; 2019)[6].Investors prefer stock futures more than any other varieties of derivatives (Bhaumik et.al; 2007)[7]. Investors prefer stock index futures followed by index options. Derivatives acts as a major tool for reducing the risk involved in investing in stock market for getting the best result out of it. The investors should be aware of the various hedging and speculation strategies which can be used for reducing their risk. Awareness regarding various uses of derivatives can help investors to reduce risk and increase profits (Ravichandran; 2008)[8]. Few authors are of the contradictory opinion that Investors give proper attention and allocate sufficient resources towards risk management. They are capable of dealing in derivatives even in complex situations. Factors such as greed, political interference, inappropriate standards and inadequate control encourage misuse and hinder the proper use of derivatives. Derivatives are valuable financial instruments and they are aware of the benefits derivatives provide when carefully handled (Bezzina; 2012)[9]. Most of the investors have invested in the cash segment than in the derivative segment. The level of attention of the spinoff market related to the traders is high, but no longer fascinated in investing due to the fact of the excessive stage of risk. Since many buyersexpressed their hobby in studying more about the derivative market segment (Arunsankar; 2020)[10]. Risk averse investors always try to safe by investing in fixed deposits, mutual funds, government bonds, insurance and securities. The other risk takers want to earn more returns they prefer to invest in derivative market. Investors are aware of derivative market. As derivative market offer more return with hedging of interest rate risk and exchange rate risk with maximum profit and minimum loss (Sarathkumar;Dhandhayuthapani, 2016)[11].

2.3 Investors perception towards financial derivatives

Investors perception studies fall into the area of Behavioral Finance. Behavioral Finance is considered to be a relatively emerging field. Understanding individual investors behavior is critical for policy makers and regulators. Investors perception towards financial derivative instruments are dependent upon major demographic factors like income, age, social needs, experience, educational/professional literacy and many personal and situational factors. Few authors have similar opinion that the perception of investor with respect to the decision about investment avenues is different it is dependent upon major demographic factors like income, age, social needs and experience, (Disha; Priyanka, 2018)[12]. Age has a vital impact in investment where as the impact on the tax advantages are by education qualification respectively. Attributes that are considered as mediating factor are investments charges and liquidity. (Sreelekha; Prasad; Sandhya, 2020)[13] (Thamotharan; Prabakaran, 2013)[14]. Income is found to have a significant role on derivatives. Investors are using these securities for different purposes namely risk management, profit enhancement, speculation and arbitrage **(**Tripathi, 2014)[15].Investors considers many factors such as guidance from financial advisor, broker, hedging fund, risk control, and their own knowledge regarding financial product and highvolatility in the stock

market etc. while taking decision to invest in derivatives (Babaraju; Bhatt; Apurva; Chauhan, 2014)[16].Few authors are of different opinion that Indianinvestors mainly invest their money in real estates and insurance as they have the options offering great returns with minimum risk associated with it. He found that education, profession and gender do not affect the derivative investing behavior **(**Tripathi, 2014)[15]. Gender, age, income and education do not have significant effect on perception of derivative products. (Sarfarz et.al, 2015)[17]. Most people look at derivatives with fear; they should understand the fact that derivatives help in shifting the risk to the other party. The reasons for not investing in this market are lack of knowledge and very complex nature of instruments. Some people have a wrong perception about derivatives. The study suggests that measures should be taken to make sure that the investors get a right picture of the instruments and their risk factors (Nagaraju, 2014)[18]. Experienced derivative traders consider derivatives as risky instruments and are therefore, safe players. It is not possible to earn high returns. They strongly feel that individual investors need to be trained on variety of derivative instruments available and their working (Indu Gautam; Kavidayal, 2016)[19]. Derivative market is dominated by male investors, excess return does not affect their investment in derivatives. Broker feel problem in providing suggestions about derivative trading. Investors perception about derivative is influenced by the popularity of stock and also affected by the trading of FIIand movement in International market (Sumeet; Pinal; Ridhima; Sajay) [20].

2. RESEARCH METHODs

The research design applied for this study is analytical and descriptive in nature. Both primary and secondary data were used in this study. The primary data was collected from investors of financial derivative trades in Bidar city. Structured questionnaire has been prepared and converted questionnaire into goggle form and generated link, same link was shared to investors through the mobile numbers and collected responses. The questionnaire consists of two sections measuring demographic variables of investors investment in derivative trading and .The second section measures the investors awareness in derivative trading, seven distinct factors that were expected to influence investors awareness towards derivative trading. A five point LIKERT scale ranging from strongly disagrees to strongly agree was used to measure each variable.

3.1 Population & Sample size: The population consists of investors trading in financial derivative segment spread over Bidar city. Four Broking house data was collected Geojit Financial Service=80, Karvy Stock Broking Ltd=30, Share khan=20, Angle Broking = 40. Total population =170, to calculate sample size , www.openepi .com was used with population -170, anticipated frequency 50%(as there were no previous studied carried out previously) confidence level=95% , random sample method of sampling=1.0 and the output arrived for sample size was=119 for 95% confidence level, Based on this the sample size chosen for the study was 119.Secondary data was collected from published reports by derivative market, stock market website in India.

3.2 Data Analysis: Google form responses were entered into an Excel file. The data file was imported from excel to the(Statistical packages for Social sciences')SPSS version 25 software was used for analysis, and same file was imported in(Analysis of a moment structures) IBM AMOS version26 for structural equation model for multivariate analysis.

The statistical tools used for data analysis in this study were

1) Principal component analysis and reliability test
2) Multiple regression analysis (AMOS)
3) Descriptive statistics ,alpha coefficient and Pearson correlation testsThe significance level chosen for the study was 0.05

Research Hypothesis:

Following hypothesis were developed to know the significant relationship between investors awareness preference in investing in financial derivative, six factors were studied Product innovation, perception, price discovery, volatility, risk management,returns.

1) H1: Investors' awareness in financial derivative trading has positive impact on Productinnovation.
2) H2. Investors' awareness in financial derivative trading has positive impact on derivativePerception
3) H3: Investors' awareness in financial derivative trading has positive impact on pricediscovery
4) H4: Investors' awareness in financial derivative trading has positive impact on volatility
5) H5: Investors' awareness in financial derivative trading has positive impact on Riskmanagement
6) H6: Investors' awareness in financial derivative trading has positive impact on Returns

3. Research results

Selection criteria: To implement EFA, it is necessary to check KMO and Bartlett's Test it should be ≥ 0.5 which measures the inter significance of sampling, Factor loading should be ≥ 0.5. The scale is satisfactory when the total variance extracted (cumulative %) ≥ 50% Egien value should be ≥ 1, Correlation coefficient > 0.3 and to ensure the reliability of scales in the questionnaire, the Cronbach's Alpha coefficient should be ≥ 0.6 (Henseler et al.2009, 2015, 2013) [21]

Table: 1 KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.923
Bartlett's Test of Sphericity	Approx. Chi-Square	2183.358
	df	325
	Sig.	.000

The table: 1 KMO value is 0.923 which indicates good reliability and validity of collected data, and P value is 0 states there is significant relationship among the components. Therefore KMO and P value results states that it is good model fit for conducting factor analysis.

Table: 2 Exploratory Factor Analysis Result

Factor	Items	Factor Loading	Eigen value	% of Variance	Cronbach's Alpha (α)
Awareness	Trading in F&O is convenient	.575	2.321	19.032	0.613
	Trading in derivatives leads to anxiety, fear, panic etc.,	.793			
	Trading in cash/spot market iseasy compare to (F&O) market	.662			
	Trading in derivatives need more investment as lot size is fixed	.776			
	Investing in derivatives contract are less risky compared to equity market	.752			
Product Innovation	Derivatives are new, complexand high-tech financial product	.710	2.117	18.725	0.791
	With the introduction of derivatives market investors can trade in cash and F &O market by applying different strategies to minimize risk	.737			
	Innovation in derivative	.737			
	products would lead to an efficient market				

Perception	Derivative instruments are tools for profitability and risk control	.692	2.167	15.812	0.610
	We can only hedge risk in derivative to some extent but may not earn more profit by trading derivatives market	.840			
	Derivatives make good returns only when we take some risk	.670			
	Investing in derivatives is much better in terms of returns than investing in cash /spot market/debt instruments	.698			
Price Discovery	By equity linked derivatives investor can discover price of underlying security	.774	1.603	7.614	0.748
	Derivative market helps in price discovery in the spot market	.809			
Volatility	Volatility in derivative marketis associated with equity market	.787	2.27	4.913	0.838
	Investors can make profit in bullish and bearish market in derivative trading	.812			
	Volatility has increased in equity market after the introduction of futures andoptions	.768			
Risk Management	Derivative instruments are fully useful to hedge risk	.767			
	Risk can be minimized in derivative trading by locking price	.740	2.289	4.431	0.667
	Derivative instruments are useful in speculation , arbitrage and risk management	.752			
	Trading in F&O (Derivatives) is very risky	.902			
Returns	Expected Returns earned	.765	3.536	4.365	0.896
	Expected level of risk	.691			
	Information provided by experts(through media, & stock Brokers) was useful	.758			
	Consistently trade in F&O in future	.759			
	Recommend others to trade	.745			

Rotation method: Varimax

Exploratory factor analysis, via principal components extraction with Varimax rotation, was used to reduce the items into single variable. Internal consistency reliability was assessed by computing Cronbach's alpha Coefficients.

Table: 2

Factor analysis reveals that all items have a factor loading of 0.5 or greater which shows each item belongs to only one group. Exploratory factor analysis (EFA) for each factor according to the theoretical model is assessed.

Factor analysis reveals that data satisfies all the selection criteria conditions , factor loading $\geq$ 0.5 as per table :1 and total variance extracted (cumulative%) 74.892 and all variables are having egien value ≥ 1 and KMO and Bartlett's Test is 0.923.(Henseler et al., 2009,2015)[24][25]

Awareness factor 1: Extracted variables from the rotated component matrix with Varimax technique. This factor influence about 19.032% to the investors' they are aware of investment in derivative trading. The construct is having 0.613% of the study is reliable on the instrument for quantifying investment in derivative trading.

Product innovation factor 2: Extracted variables from the rotated component matrix with Varimax technique. This factor influence about 18.725% to the investors they agree that derivatives are innovative product for trading. The construct is having 0.791% of the study is reliable on the instrument for quantifying investment in derivative trading.

Perception factor 3: Extracted variables from the rotated component matrix with Varimax technique . This factor influence about 15.812% to the investors' perception towards derivative trading. The construct is having 0.610% of the study is reliable on the instrument for quantifying investment in derivative trading.

Price discovery factor 4: Extracted variables from the rotated component matrix with Varimax technique . This factor influence about 7.614% to the investors they agree that price of share can be discovered in derivative trading. The construct is having 0.748% of the study is reliable on the instrument for quantifying investment in derivative trading.

Volatility factor 5: Extracted variables from the rotated component matrix with Varimax technique. This factor influence about 4.913% to the investors they agree that derivative marketis volatile. The construct is having 0.838% of the study is reliable on the instrument for quantifying investment in derivative trading.

Risk Management factor 6: Extracted variables from the rotated component matrix with Varimax technique. This factor influence about 4.431 % to the investors they agree the importance ofusing risk management . The construct is having 0.667% of the study is reliable on the instrument for quantifying investment in derivative trading.

Returns factor 7: Extracted variables from the rotated component matrix with Varimax technique. This factor influence about 4.365 % to the investors they agree with the returns earned from the derivative trading and are satisfied. The construct is having 0.896 % of the study is reliable on the instrument for quantifying investment in derivative trading.

A summary of the exploratory factor analysis output is presented in Table: 2.Thus the seven measures represent internally consistent constructs for investment in financial derivatives. Since the participants who have participated in the survey were actively trading in financial derivative. The factor analysis results offer support to the use of the seven proposed scales to assess the investors' perception towards investment in financial derivative characteristics of respondents trading in financial derivatives.

Table:3 Regression Weights of Investors awareness factors in financial derivative tradingModel Fit Interpretation

Model	R	R Square	AdjustedR Square	Std. Error ofthe Estimate
Awareness in Derivativetrading	0.823	0.677	0.660	0.373

The Table:1 stats that R, R^2, adjusted R^2, Standard error of the estimate and model fit. The Multiple Correlation coefficients 0.823 is average prediction level. Among all the variables Product innovation,

Perception,Price Discovery, Volatility ,Risk management and Returns variables are 66.7% it indicates that these variables of respondents are dependednt on investors awareness reasons in financial derivative trading.

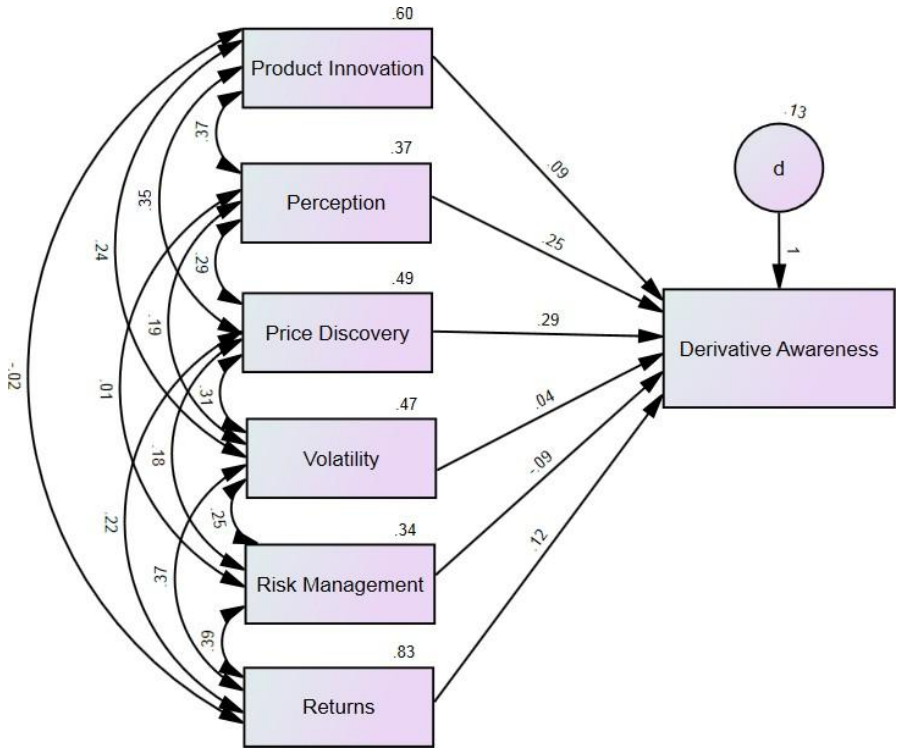

Figure: 1 Multiple Regression Path Analysis of Investors Preference Reason in Forward Contract Investment.

The rectangle small boxes represent independent variables. The curved double headed arrows represent correlations or co-variances among the independent unobserved (exogenous) variables and the straight headed arrow represents the factor loading of the observed variables. The bigrectangle box represents dependent variable, the small circle with arrow pointing from the circle to the dependent (endogenous) variable represent disturbance handler.

Table:4 Regression Weights of Investors preference factors in financial derivative trading

			Estimate	S.E.	C.R.	P
Awareness	<---	Product Innovation	.092	.076	1.213	.225
Awareness	<---	Perception	.253	.099	2.551	.011
Awareness	<---	Price Discovery	.287	.087	3.294	***
Awareness	<---	Volatility	.038	.084	.457	.648
Awareness	<---	Risk Management	-.091	.100	-.913	.361
Awareness	<---	Returns	.121	.058	2.073	.038

The above Figure:1 indicates that the financial derivative trading preference awareness factors and applied Multiple regression analysis. Table:4 states that there is a significant relationship with awareness in derivative trading with variable Perception=0.11, Price Discovery=*** and Returns =0.038 as the P < 0.05. The regression weights are Perception=0.253, Price Discover=0.287 and Returns=0.121. The squared multiple correlation estimates is 0.667. The analysis concludes that investors highest preference reason in trading financial derivative are Perception, Price Discovery and Returns.

Table: 5 Correlation Matrix of the investors' preferences in financial Derivative trading

Correlation Matrix	Awareness	Product innovation	Perception	Price Discover y	Volatility	Risk Management	Returns
Awareness	1						
Product innovation	.722	1					
Perception	.768	.782	1				
Price Discovery	.788	.814	.840	1			
Volatility	.711	.802	.792	.798	1		
Risk Management	.677	.770	.769	.816	.819	1	
Returns	.720	.743	.782	.765	.793	.747	1

The above table: 4 show the correlation matrix of all the variables. From the analysis it can be interpreted that variable Price Discovery 0.840 is highly correlated, Risk management 0.819 is the second highly correlated and least correlated is Awareness 0.722.

Table: 6 Covariance of the investors' preferences in financial Derivative trading

			Estimate	S.E.	C.R.	P
Risk Management	<-->	Returns	.393	.061	6.487	***
Volatility	<-->	Risk Management	.252	.040	6.334	***
Price Discovery	<-->	Volatility	.306	.043	7.105	***
Perception	<-->	Price Discovery	.294	.045	6.584	***
Product Innovation	<-->	Perception	.367	.055	6.686	***
Volatility	<-->	Returns	.368	.061	6.027	***
Price Discovery	<-->	Risk Management	.179	.032	5.594	***
Perception	<-->	Volatility	.188	.034	5.475	***
Product Innovation	<-->	Price Discovery	.353	.055	6.386	***
Price Discovery	<-->	Returns	.225	.046	4.843	***
Perception	<-->	Risk Management	.014	.017	.851	.395
Product Innovation	<-->	Volatility	.243	.044	5.555	***
Product Innovation	<-->	Returns	-.017	.033	-.503	.615

The above table: 5 show the covariance relationship of investors' awareness preference reasons in financial derivative trading. From the above table it can be interpreted that. There is a significant relationship among all the variables (P=*** represent less than 0.05) except variable Perception and Risk management; and product innovation and Returns are not having significant relationship because the P- value is greater than 0.05.

Table: 7 Descriptive Statistics Alpha, Coefficient, Correlation

	VARIABLES	MEAN	SD	ALFA	1	2	3	4	5	6	7
1	Awareness	3.93	0.639	0.613	-						
2	Product innovation	4	0.772	0.791	0.722	-					
3	Perception	3.99	0.618	0.61	0.768	0.782	-				
4	Price discovery	4.01	0.864	0.748	0.788	0.814	0.84	-			
5	Volatility	4.01	0.855	0.838	0.711	0.802	0.792	0.798	-		
6	Risk management	4.05	0.593	0.667	0.677	0.77	0.769	0.816	0.819	-	
7	Satisfaction	3.91	0.904	0.896	0.72	0.743	0.782	0.765	0.793	0.747	-

****. Significant Correlation at the 0.01 level (2-tailed).**

The respondents agree that they are investing in derivatives for risk management Mean=4.05, SD=0.593 and Risk management is having highest correlation coefficient (0.819) asper alpha value 0.667 Risk management variable is reliable.

Table:8 Result of Regression Analysis

Hypothesis	B	P value	Beta	t-statistics
H1: Investors' awareness in financial derivative tradinghas positive impact on Product innovation	.092	.294	.111	1.054
H2. Investors' awareness in financial derivative tradinghas positive impact on derivative Perception	.253	.031	.245	2.180
H3: Investors' awareness in financial derivative tradinghas positive impact on price discovery	.287	.002	.389	3.209
H4: Investors' awareness in financial derivative tradinghas positive impact on volatility	.038	.657	.051	.445
H5: Investors' awareness in financial derivative tradinghas positive impact on Risk management	-.091	.434	-.085	-.786
H6: Investors' awareness in financial derivative tradinghas positive impact on Returns	.121	.087	.171	1.725

a. Dependent Variable: Awareness, 95.0% Confidence level

Table: 9 Correlations with Awareness

Variables	Correlation(r)	Significance(p)
Product innovation	.111	.294
Perception	.245	.031
Price discovery	.389	.002
Volatility	.051	.657
Risk management	-.085	.434
Returns	.171	.087

H1: Investors awareness in financial derivative trading has positive impact on Product innovation.

The Pearson correlation test states that there is a positive correlation (0.111) between investors awareness in financial derivative trading and product innovation and the P value is greater than 0.05. it indicates that there is no significant relationship between investors awareness in financial derivative trading and product innovation.

H2. Investors awareness in financial derivative trading has positive impact on derivative Perception

The Pearson Correlation test states that there is a positive correlation (0.245) between **Investors'** awareness in financial derivative trading has positive impact on derivative Perception and the P value is smaller than 0.05 this indicates that there is a significant relationship between Investors' awareness in financial derivative trading has positive impact on derivative Perception.

H3: Investors awareness in financial derivative trading has positive impact on price discovery

The Pearson Correlation test states that there is a positive correlation (0.389) between Investors' awareness in financial derivative trading has positive impact on price discovery and P value is less than 0.05 this indicates that there is a significant relationship between Investors' awareness in financial derivative trading has positive impact on price discovery.

H4: Investors' awareness in financial derivative trading has positive impact on volatility The Pearson Correlation test states that there is a positive correlation(0.51) between Investors'awareness in financial derivative trading has positive impact on volatility and P value is greaterthan 0.05 this indicates that there is no significant relationship between Investors' awareness infinancial derivative trading has positive impact on volatility.

H5: Investors' awareness in financial derivative trading has positive impact on Risk management

The Pearson Correlation test states that there is a negative correlation (-0.085) betweenInvestors' awareness in financial derivative trading has positive impact on Risk management and

the P value is greater than 0.05, this states that there is no significant relationship between Investors' awareness in financial derivative trading has positive impact on Risk management.

H6: Investors' awareness in financial derivative trading has positive impact on Returns

The Pearson Correlation test states that there is a positive correlation (0.171) between: Investors' awareness in financial derivative trading has positive impact on Returns and P value is greater than 0.05, this states that there is no significant relationship between Investors' awareness in financial derivative trading has positive impact on Returns.

5. CONCLUSION:

In this study we have set seven factors to measure the awareness of investor's investment in financial derivatives such as Awareness, Product innovation, Perception, Price discovery, Volatility, Risk management and Returns. The factor score revealed that the respondents are having awareness, they feel derivatives are innovative product and having positive perception towards investment in derivatives. They agree that they can discover the price by trading in derivatives and feel derivative markets are more volatile. They also feel that investment in derivatives is done to use risk management and they are satisfied with the returns earned. The variables, product innovation, perception, price discovery, volatility risk management are influencing factors in investment financial derivatives. The highest preference reasons in investing in financial derivative instruments are perception, price discovery, Risk management and returns.

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