

INVESTORS OR TRADERS PERCEPTION ON EQUITY DERIVATIVES

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Abstract

Equity derivatives are a type of derivatives where its values are derived from equities like securities. Equity derivatives are derived from its one or more underlying equity security. The most commonly used equity derivatives in the market are futures and options. Futures can be stated as contracts which are standard in nature and can be transferred between the two parties with a purpose of buying or selling an underlying asset in future at particular time and price. Options can be described as contracts which give the buyer the right to buy or sell underlying asset at a particular price and time. In call option, the right to buy is applicable and in put option, the right to sell is applicable. This paper objective is to measure the perception of the investors towards Equity derivative.

The derivative market seems to be new segment in secondary market operations in India. Usually this trade measures are sophisticated, making it difficult for an Indian investor to digest and also to make profits in trading the derivative. This study aims to measure the investors' perception towards Derivatives market. This research is of descriptive nature, in which, systematic sampling technique is used. The size of the sample, validity and reliability is selected using the Trail survey process of the instrument. 200 samples are taken into consideration for this study. Age has an vital impact in investment where as the impact on the tax advantages is by education qualification respectively are the major findings in this study. Variables used in this study to measure perception of investors are functional in nature. Investors' perception the attributes that are considered as mediating factor are investments, charges and liquidity. Investment influences and benefits of investment in this study are given high importance.

Financial area reforms during the early decade of 1990's have changed the Indian capital markets into a dynamic and giant market amongst the world monetary markets. The internalization of financial endeavor and the unparalleled foreign money and pastime fee volatility, chance hedging strategies have grown at a speedy pace minimizing the impact of unsure money flows. The emergence of the market for by-product contraptions can be traced lower back to the eagerness of threat fending off financial marketers to guard themselves towards concerns springing up out of fluctuations in asset prices. Derivatives supply buyers and issuers with a wider vary of equipment for overseeing dangers and elevating capital. Derivatives have shifted the speculative buying and selling to a extra managed surroundings with threat containment measures like margining, monitoring of the overall performance of a number of participants. During the current international recession by-product devices had been generally criticized on account of their speculative nature. Since the introduction of derivatives section in the 12 months 2000, it has led each interactions between the sp pot and by-product phase in Indian inventory market and situation via regulators in controlling any viable detrimental influences of this new buying and selling segment. There are exclusive opinions on affect of spinoff phase on money segment. Considering the quick records of solely a decade of futures and selections buying and selling in India and the presence of countless market frictions and restrictions that would possibly have

hindered the environment friendly operation of Indian securities markets, a find out about was once warranted to apprehend the opinion of traders at giant in the direction of spinoff segment. This paper analyses the appreciation of market contributors toward by-product trading, its relationship with the spot market and its function in Sub Prime crises. The find out about was once carried out in the nation of Uttarakhand, India to get an perception into the minds of investor and learn about how their age and danger profile have an impact on their choice to make investments in derivatives.

1. Introduction:

Indian Financial region has long past thru more than a few tremendous traits over the years. Introduction of monetary derivatives has been one of them. Financial derivatives have entered Indian Capital Market as a monetary innovation and hazard administration device however it has raised loads of situation amongst market participants, coverage makers and economists. The raised issues relate to the monetary affect of these new contraptions as their introduction has created an surroundings the place hypothesis has turn out to be a dominant activity. Derivative buying and selling is additionally used for hedging functions however the speculative undertaking related with by-product buying and selling has led to excessive volatility in the underlying markets. Frequent market crises at some point of remaining three many years (1980-2010) have raised issues about the affect of these new units amongst market participants, coverage makers and economists. Still market members mainly brokers are hugely dealing in derivatives even in states like Uttarakhand the place customary focus about inventory markets, their working and economic gadgets is pretty low. This learn about focuses on exploring the opinion of market members closer to by-product buying and selling in the kingdom of Uttarakhand with an goal to verify their appreciation on the eight associated factors- Awareness, Participation, Product Innovation, Price Discovery, Return on Investment, Liquidity and Volume, Volatility and Risk Perception. For the cause a questionnaire used to be administered to chosen dealer participants of NSE/BSE working in the kingdom of Uttarakhand who have the ride and expertise of by-product trading. The fundamental data, as a consequence collected, used to be analysed the usage of statistical bundle and the consequences had been used to investigate their opinion.

A by-product is a economic instrument, which derives its fee from some different economic price. This "other monetary price" is known as the underlying. For example, in the case of Nifty futures, Nifty index is the underlying. Futures are standardized contracts between two events to purchase or promote an asset (underlying) at a sure time in the future for a sure price. A future trading presents transparency, liquidity, anonymity of trades, and additionally eliminates the counter birthday celebration dangers due to the warranty supplied via National Securities Clearing Corporation Limited. An alternative is a contract that offers the consumer the right, to purchase or promote the underlying at a noted date and at a unique price. A name alternative offers the proper to purchase and a put alternative offers the proper to sell. This paper goals to measure investors' understanding closer to risk, participation and spinoff merchandise in fairness derivatives.

2. Research Problem:

While derivatives can be used to assist control dangers concerned in investments, they additionally have dangers of their own. Various dangers such as market risk, liquidity risk, savings risk, hedging danger etc. are related with derivatives and have been already mentioned in this study. In the current present day state of affairs when derivatives are enjoying an necessary function and additionally due to the danger related with derivatives, it is imperative to find out about and analyse the understanding of buyers who simply offers in them and additionally what they sense about these modern economic instruments.

The current find out about of fairness derivatives in a easy manner this can be understood with the aid of laymen and to make the reader capable to use equity derivatives with less difficult in his buying and selling and to furnish a whole framework to the gamers of the market and market strategies. As fairness derivatives is additionally one of the types of Financial derivatives, it is slit tough to make investments because of excessive volatility in market, so investor has to undertake techniques in accordance to market

to make investments in fairness derivatives and additionally need to have via information related to fairness derivatives. This find out about helps buyers to analyse the unique techniques to be applied at special market situations.

3. Review of Literature:

Sarathkumar, K., &Dhandhayuthapani, S. P. (2016). The mindset of investor's is altering toward spinoff market in India for the ultimate some years and with the introduction of behavioral finance the researcher would like to seize that. The notion of behavioral finance is developing in the capital market, there is hardly ever any vicinity the place its principles aren't being applied.

Manrai, D. R. (2015). The crux of the learn about will provide the researcher a quantitative mannequin reflecting the elements affecting the investor conduct in spinoff market with load factors. Through this learn about the researchers would like to learn about the a number of elements accountable for the funding conduct in spinoff market.

RAKESH, H.M. (2015). Study Intends to locate choice stage of traders on a number Capital Market instruments, to locate out the kind of threat which are viewed by way of the investors, to discover out the methods via which the buyers on a variety of minimizes their chance and ultimately to locate out the preferences of Investors in derivatives market.

Pallavi, E. V. P. A. S., & Raju, T. K. (2014). The derivatives market is witnessing first-rate boom in India. The statistical information displays that the whole turnover of futures and choices in NSE market are Rs 67510.02 billion and Rs 247820.01 billion respectively through 2012-13. The retail and institutional traders occupied a key position in improvement of derivatives buying and selling in India.

Tripathi, G. (2014). Conducted a survey via structured questionnaire concentrated on one hundred retail buyers of Delhi/NCR area to recognize the attention and elegance of specific spinoff securities amongst the retail investors.

Pasha, S. A. M. (2013). An strive is made by using the researcher to comprehend what type of perceptions had by means of retail traders in India based totally on Andhra Pradesh State reference with a pattern measurement of five hundred respondents by way of the usage of easy share bar diagrams. Ultimately, monetary derivatives need to be regarded section of any investor's risk- administration approach to make certain that price - bettering funding possibilities are pursued.

Savitha, R., &Deepika, S. R. (2013). This lookup is an try to discover the effectivity of the sentimental symptoms of monetary derivatives in predicting the vogue of the market (behaviour of NIFTY index). Participants in the inventory markets accept as true with that the quantity of open activity (OI) in a specific contract has a bearing on the conduct of the rate of the contract.

Kukreja, G. (2012). Aims to measure the investors' appreciation toward Indian capital market with reference to National Capital Region (NCR) traders of India. a hundred and twenty samples are chosen for this study. Major findings of this find out about include, age has sizable have an impact on on investment, and instructional qualification has substantial influence on tax advantages. 119 purposeful variables are used in this learn about to measure investors' perception.

Choksi, A. (2010). The most considerable match in finance all through the previous decade has been the dazzling improvement and enlargement of economic derivatives. These gadgets decorate the capability to

differentiate chance and allocate it to these buyers who are most in a position and inclined to take it-a procedure that has surely extended countrywide productivity, boom and requirements of living.

Ramanjaneyalu, N., & Hosmani, A. P. (2010). Studied, derivatives occupy an necessary vicinity as a hazard decreasing mechanism. Derivatives are beneficial for decreasing many of the dangers noted above. History of economic markets has proof to advise that when threat administration avenues are furnished by using potential of derivatives, markets entice greater volumes of investments from savers, strengthening the markets in the procedure

Paraschiv, D., & Raghavendra, S. (2009, March). Introduced a inventory scanner evaluator for shares and options. In the introduced work the scanner selections from heaps of shares the most appropriate shares for an choices or shares investor. The proposed shares scanner evaluator suggests the shares that have the biggest tremendous close to future exchange (for buying shares or calls) and the shares that have the biggest bad close to future trade (for buying puts).

Ravichandran, D. K. (2008) was undertaken to locate out the focus stage of a range of capital market devices and additionally to discover out their threat choice in a range of segments.

Sandeep Srivastava, Surendra S Yadav, P K Jain September (2008). The authors carried out a survey of brokers in the currently added derivatives markets in India to study the brokers' evaluation of market pastime and their appreciation of the advantages and fees of spinoff trading.

4. Objectives of the study:

- To recognize the thought of the Financial Derivatives such as Forwards, Futures, Options and Swaps
- To comprehend the participation of Investors in Financial Derivative Markets
- To comprehend the Strategy used through Investors While Trading in derivatives market
- To comprehend the Expected return with the aid of Investors in Financial Derivatives Market
- To learn about the Investors Preference for choosing kinds of Derivatives for Investment
- To be aware of the Investment Experience of Investors in Derivative Market
- To understand the Investors having any Training in Derivatives Market from NSE, BSE or any Broking association earlier than buying and selling
- To recognize the Investors choice of pastime in sorts of Derivatives for Investment
- To spotlight the demographic profile of the Investors
- To find out about the motivational elements Influencing investing fund upon buying and selling pastime in fairness derivatives Market
- To investigate the issues confronted with the aid of the buyers in Equity Derivative Market and
- To provide guidelines in the mild of the study.
- To find out about the aspects of by-product merchandise and dangers associated with them.
- To perceive the elements which have an effect on the funding selection in derivatives.

5. Research Methodology:

Data is uncooked statistics gathered from quite number sources. This uncooked facts desires filtrations in order to convert into applicable records having been compiled, edited and coded i.e. it has to omit thru a procedure of evaluation and has to be interpreted as a result earlier than their which means and implications are understood. Various statistical methods are used for checking out the speculation and drawing the inferences and conclusions about the relationship. In the lookup research following statistical strategies have been applied:

Frequency Distribution: Frequency distribution is a technique of showing the frequency (number of instances a unique fee of a variable repeats in the data) of distinctive values of a variable in the statistics set. It represents the counts of all consequences of a variable in sample. The frequency

distribution of a variable can be represented in tabular shape as properly as graphical form. Frequency distribution is very common and vital for nominal (categorical) and ordinal (ranking) variables in the records set. In the lookup find out about the frequency distribution is used to signify the personnel and clients belongs to one-of-a-kind demographic profiles

One-way ANOVA: One-way ANOVA is used to check the distinction in the capability of the three or greater than three impartial samples. Because of the presence of household smart error the ANOVA check is continually favored to more than one t tests. In case of ANOVA check the null speculation is that all pattern potential are equal.

Ho: All crew potential are equal ANOVA system calculates the F- facts which compares the systematic variance in the facts (between crew variance) to the unsystematic variance (within crew variance).

Regression Analysis: Bivariate regression evaluation is used to analyze the motive and impact relationship between two variables below study. In different phrases the motive of regression evaluation is to learn about the dependence of one variable (dependent variable) on some other variable (independent variable) and to estimate the predicted values of the structured variable with the help of recognized values of the impartial variables. In regression evaluation the researcher is fascinated to understand the dependence amongst variables. The structured variable is regarded as a stochastic variable, whereas the unbiased variables are deterministic in nature. The correlation between two variables suggests the power of linear affiliation between them, on the other hand in regression evaluation we are attempt to estimate or predict the common fee of one variable on the groundwork of the constant values of different variables.

Statistical Software

In the lookup study, MS Excel, SPSS 20.0 and AMOS 20.0 are used for the cause of information analysis. MS Excel is a spreadsheet developed through Microsoft for calculations, graphing equipment and different programming. IBM SPSS (Statistical Package for Social Sciences) is predictive analytics software program affords superior methods for effortless calculations, graphical representations, increased effectivity and to minimizing risks. IBM AMOS is used as it is one of the most broadly used software program for SEM analysis. Structural Equation Modelling (SEM) is used to examine information the use of a number of goodness-offit and badness-of-fit indices.

Hypothesis of the study:

1. Investors' Gender and Investors' Perception
2. Occupation and Investors' Perception
3. Educational Qualification and Investors' Perception
4. Marital Status and Investors' Perception
5. Investors' Monthly Income and Their Perception

Data Analysis and Interpretation

Investors' Gender and Investors' Perception

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To apprehend whether or not the gender of the respondents has any impact on Investors' Perception the relationship between these two is analysed. In order to discover out the relationship between gender of the respondents and Investors' Perception. et, Chi-square take a look at was once utilized and the end result of the take a look at is given in the following table.
Hypotheses

Null Hypothesis (H₀): There is no substantial affiliation between between gender of the respondents and

economic approach used in fairness derivatives.
 Alternate Hypothesis (H1): There is a big affiliation between gender of the respondents and monetary method used in fairness derivatives.

Chi-Square Tests			
	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	3.602 ^a	2	.165
Likelihood Ratio	3.660	2	.160
Linear-by-Linear Association	3.370	1	.066
N of Valid Cases	200		

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is 2.65.

The chi-square take a look at end result indicates that there is a vast affiliation between respondents' gender and monetary approach used in fairness derivatives. Hence the null speculation is accepted.

Occupation and Investors' Perception

The relationship between investors' occupation and Investors' Perception is analyzed. In order to locate out the relationship between occupation of the traders and their stage of appreciation closer to derivatives market, Chi-square check used to be utilized and the end result of the take a look at is given in the following table.

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.137 ^a	12	.359
Likelihood Ratio	14.206	12	.288
Linear-by-Linear Association	.949	1	.330
N of Valid Cases	200		

a. 12 cells (57.1%) have expected count less than 5. The minimum expected count is .05.

Hypotheses

Null Hypothesis (H0): There is no great affiliation between the occupation of the respondents and their grasp toward derivatives market.

Alternate Hypothesis (H1): There is a great affiliation between the occupation of the respondents and their grasp toward derivatives market.

The chi-square take a look at end result displays that there is a sizable affiliation between respondents' occupation and their appreciation closer to derivatives market. Hence the null speculation is accepted.

Educational Qualification and Investors' Perception

The relationship between academic qualification of the traders and their appreciation is studied thinking about 4 classes of academic qualification particularly college level, undergraduate, put up graduate and others. In order to confirm the relationship between instructional qualification of the traders and their stage of investors' appreciation in the direction of derivatives market, Chi-square take a look at was once utilized and the end result of the take a look at is given in the following table.

Hypotheses

Null Hypothesis (H0): There is no sizeable affiliation between the academic qualification of the respondents and their appreciation in the direction of derivatives market.

Alternate Hypothesis (H1): There is a huge affiliation between the academic qualification of the respondents and their grasp toward derivatives market.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.202 ^a	10	.014
Likelihood Ratio	21.590	10	.017
Linear-by-Linear Association	3.459	1	.063
N of Valid Cases	200		

a. 2 cells (11.1%) have expected count less than 5. The minimum expected count is 1.79.

The chi-square take a look at end result suggests that there is a sizeable affiliation between respondents' academic qualification and their appreciation toward derivatives market. Hence the null speculation is accepted.

Marital Status and Investors' Perception

To apprehend whether or not marital fame of the respondents has any impact on investors' appreciation closer to derivatives market, the relationship between these two is analyzed. Two classes particularly married and single traders are regarded for the study. Transgenders are excluded from study. In order to locate out the relationship between marital reputed of the traders and their stage of their understanding toward derivatives market, Chi-square check was once utilized and the end result of the take a look at is given in the following table.

Hypotheses

Null Hypothesis (H0): There is no full-size association between the marital popularity of the respondents and their understanding toward derivatives market.

Alternate Hypothesis (H1): There is a widespread affiliation between the marital fame of the respondents and their the grasp in direction of derivatives market.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.252 ^a	7	.175
Likelihood Ratio	9.987	7	.189
Linear-by-Linear Association	.500	1	.480
N of Valid Cases	200		

a. 1 cells (6.3%) have expected count less than 5. The minimum expected count is 4.18.

The chi-square take a look at end result exhibits that there is a tremendous affiliation between respondents' marital reputation and investors' grasp in the direction of derivatives market. Hence the null speculation is accepted.

Investors' Monthly Income and Their Perception

To apprehend whether or not the profits of the respondents has any impact on their perception, the relationship between these two is analysed. For this purpose, 5 classes of investors' earnings are considered. They are Rs. 10,000 and below, Rs.10,001 ± 20,000, Rs. 20001 ± 30000, Rs. 30001 ± 40,000 and above Rs. 40,000. In order to discover out the relationship between earnings of the traders and their stage of appreciation closer to derivatives market, Chi-square check was once utilized and the end result of the check is given in the following table.

Hypothesis:

Null Hypothesis (H0): There is no sizable affiliation between the earnings of the respondents and their grasp toward derivatives market.

Alternate Hypothesis (H1): There is a extensive affiliation between the profits of the respondents and their grasp closer to derivatives market

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.816 ^a	21	.661
Likelihood Ratio	17.352	21	.690
Linear-by-Linear Association	.990	1	.320
N of Valid Cases	200		

a. 8 cells (25.0%) have expected count less than 5. The minimum expected count is 1.70.

The chi-square check end result indicates that there is a considerable affiliation between respondents' profits and investors' grasp closer to derivatives market. Hence the null speculation is accepted.

Recommendations

The buyers can reduce danger by means of investing in derivatives. The use of spinoff equips the investor to face the risk, which is uncertain. Though the use of derivatives does not totally put off the risk, however it clearly lessens the risk.

It is recommended to the investor to make investments in the derivatives market due to the fact of the higher quantity of liquidity provided through the monetary derivatives and the decrease transactions charges related with the buying and selling of economic derivatives.

The derivatives merchandise provide the investor an alternative or preference whether or not to exercising the contract or not. Options supply the preference to the investor to both exercising his proper or not. If on expiry date the investor finds that the underlying asset in the alternative contract is traded at a much less charge in the inventory market then, he has the full liberty to get out of the alternative contract and go beforehand and purchase the asset from the inventory market. So, in case of excessive uncertainty the investor can go for options.

Government must take initiative to set up coaching canthers in the region of inventory broking and fairness Financial Derivative provider to supply a expert outlook. The brokers play a function of intermediation in the capital market, authorities need to come ahead with measures to provide, wanted comfort in the structure of can provide or aids to assist them to enhance their business. Brokers must strengthen a self belief amongst the purchasers to make on line change themselves via seminars, technical periods etc. this in flip helps to enhance the preferred of Indian Financial Derivative market. It is really useful to the

investor to make investments in the derivatives market due to the fact of the higher quantity of liquidity presented by means of the economic derivatives and the decrease transactions charges related with the buying and selling of economic derivatives. The buyers can decrease hazard by means of investing in derivatives. The use of by-product equips the investor to face the risk, which is unsure although the use of derivatives does no longer absolutely remove the risk, however it absolutely lessens the risk. However, these gadgets act as a effective instrument for educated merchants to expose them to the good calculated and nicely understood dangers in pursuit of reward i.e. profit.

6. Conclusion:

Derivatives have existed and advanced over a lengthy time, with roots in commodities market. In the latest year's advances in economic markets and the science have made derivatives convenient for the investors. Derivatives market in India is developing hastily in contrast to fairness markets. Trading in derivatives require greater than common appreciation of finance. Being new to markets most wide variety of traders have no longer yet understood the full implications of the buying and selling in derivatives. SEBI have to take moves to create focus in traders about the spinoff market.

Introduction of derivatives implies higher chance management. These markets can provide increased depth, balance and liquidity to Indian capital markets. Successful hazard administration with derivatives requires a thorough perception of standards that govern the pricing of economic derivatives.

In order to expand the derivatives market in India SEBI have to revise some of their law like contract size, participation of FII in the by-product market. Contract dimension need to be minimized due to the fact small investor can't come up with the money for this a good deal of large premiums.

In money market the profit/loss is restricted however the place in F&O an investor can revel in limitless profits/loss.

At current state of affairs the Derivatives market is extended to a tremendous position. Its every day turnover teaches to the equal stage of money market.

The derivatives are mostly used for hedging purpose.

In money market the investor has to pay the whole money, however in derivatives the investor has to pay premiums or margins, which are some proportion of whole one.

In spinoff section the profit/loss of the alternative holder/option creator is only depended on the fluctuations of the underlying asset.

The dialogue at some stage in pretesting highlighted that the respondents suppose that excessive transaction fees lack of training, malpractices adopted by using unlawful economic advisors and shorter alternate timings are few impediments to by-product buying and selling in India. Factors such as discount in transaction costs, product innovation, investor awareness, education and participation, legalization of economic advisors and extension of alternate timings can pave the route for similarly increase of by-product markets in India.

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