

Trading with Financial Derivatives : The Economic Objectives and Post Investment Behavior

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Abstract

Financial derivatives are the instruments which would help to transfer market risk and provides protection against losses resulting from unforeseen price changes. However the investor's decision to trade with derivatives is primarily influenced by their economic objectives on investment and the behavioral mindset. It is also observed from the literature that previous trading experience with derivative instruments plays a dominant role in shaping the future investment decision of the investors. Considering the above hypotheses we have conducted a wide spread survey among 1,020 investors located in south Kerala region. We have employed Friedman Test and Paired sample T-test for analyzing the input data. The results revealed that the fundamental economic objective of using financial derivative contract was to maximize the portfolio return. The study also revealed that the previous trading experiences playing a vital role in shaping investors attitude towards derivative instruments.

JEL Code : G12 ; G10 ; G11

Keywords : Derivatives, Economic Objectives, Investment, Behaviour, Friedman Test, Stock Market, Trading

I. Introduction

THE INVESTMENT DECISIONS are driven by the motives of maximization of return and minimization of risk. Other than risk-return characteristics the investor's choice towards derivative contracts are determined by several other behavioral aspects. In this context the role of depository participants cannot be neglected as they are playing a key role in shaping the investors behavior. For instance the depository participants can attract more investors towards derivatives segment by offering excellent infrastructure, rendering support to investors by trained staff, providing education programs to the investors, organizing promotional programs at firm level etc. In this process the staff at trading terminal can also play a vital role in canvassing investors from the cash segment to the derivatives segment as they are in a position to provide

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VII. Contribution to the Society

Even though the investment decisions are mainly based on risk-return analysis, some other unknown reasons can also act as powerful factors in shaping the investment decision. For instance derivatives are generally presumed to be an investment option to compensate risk arising from original investment. Even towards a risk management tool like derivatives, people are keeping some apprehension in their mind. In this context studies related to beliefs, attitudes, behavior etc. has become significant for various stakeholders dealing with financial products. Getting knowledge about attitudes and behavior of the participants towards various financial products is absolutely useful for various stakeholders like exchanges, organizations, intermediaries, regulators, government etc.

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