Review of Literature

In this chapter, an endeavour has been made to provide an overview of various aspects and issues related to this research work through the review of studies already carried out as well as experts’ speech in the relevant area at conference both the national and international level in the retail investment sector. The review of literature can lead to draw some significant conclusions and serve as a guide mark for this study. It also gives a fair chance to identify one gap that exists in area of research.

Barents Group LLC (1997) in his report on Capital Market Developments: Next step for India, reviewed overall goal of any capital market development effort. The remaining part is then organised in four pieces: increasing investor participation in India’s capital market, supporting the growth of financial intermediaries, increasing the effectiveness of the SEBI, and supporting the development of India’s debt market. He argued that India’s capital markets are rapidly growing in size and sophistication. However, like any “emerging” market and like many “matures” market, India’s market do not fully meet the idealized requirement. India’s market faces several key constraints to continued growth and maturity.

Study also argued that India’s household savings and foreign investors are key sources of this capital and can and will be increasingly attracted to more efficient, safe and transparent market. Retail investors in India are mostly short-term traders, and day trading is not uncommon. This type of trading is not conducive to capital formation because it does not entail a reallocation of savings from other investment vehicles e.g. gold and real estate to capital market instruments that provide a long-term capital to private enterprise. To the extent that buying publicly traded equities is perceived as a risky and speculative short-term activity, many potential investors will simply avoid capital market instruments altogether in deciding to allocate savings.

R. Dixon and R.K. Bhandari (1997) in article “Derivatives, risk and regulation: chaos or confidence?” said that there has been an extraordinary increase in the use of
financial derivatives in the capital markets. Consequently derivative instruments can have a significant impact on financial institutions, individual investors and even national economies. This relatively change in the status of derivatives has led to calls for regulation. Using derivatives to hedge against risk carries in itself a new risk was brought sharply into focus by the collapse of Barings Bank. The principal concerns of regulators about how legislation may meet those concerns are the subject of current debate between the finance industry and the regulators. Recommendations have been made and reviewed by some of the key players in the capital markets at national and global levels. There is a clear call for international harmonization and its recognition by both traders and regulators. There are calls also for a new international body to be set up to ensure that derivatives, while remaining an effective tool of risk management, carry a minimum risk to investors, institutions and national/global economies. Having reviewed derivatives and how they work, proceeds to examine regulation. Considers the expanding role of banks and securities houses in the light of their sharp reactions to increases in interest rates and the effect their presence in the derivatives market may have on market volatility.

Patrick McAllister and John R. Mansfield (1998) in their study on “Investment property portfolio management and financial derivatives” stated that derivatives have been an expanding and controversial feature of the financial markets since the late 1980s. They are used by a wide range of manufacturers and investors to manage risk. This paper analyses the role and potential of financial derivatives investment property portfolio management. The limitations and problems of direct investment in commercial property are briefly discussed and the main principles and types of derivatives are analyzed and explained. The potential of financial derivatives to mitigate many of the problems associated with direct property investment is examined.

Yoon Je Cho (1998) showed in his study on Indian capital market development and policy issues that an increase number of investors in different parts of the country are within the reach a national market system. This raises informational efficiency and help rapid market integration. He argued based on increasing turnover figures in the Indian stock exchanges from 1994-95 to 1996-97, implying that they are dominated by speculative investments, which is not unusual in emerging markets. However,
trading volumes in the Indian capital market are fairly large compared to those in other emerging markets. The substantial increase in turnover may be attributed primarily to the expansion of the NSE’s trading network. But this also reflects the fact that the Indian stock market is dominated by speculative investments for short-term capital gains, rather than long-term investment.

He also argued based on study from 1964 to 1997 on increasing resource mobilization by mutual funds that investor confidence in mutual funds is increasing, which ideally should be the most preferred investment vehicles for the lay investor. This could be attributed partly to market conditions, which have affected the perception of investors. With the revised SEBI (Mutual Fund) Regulations of 1996, mutual funds have been given greater flexibility to operate schemes. It is expected that as a result of this liberalization, mutual funds will introduce innovative products to attract investors. The revised regulations have also introduced greater transparency and accountability, which is anticipated to boost investor confidence.

Anna A. Merikas et.al. (1999) undertook an empirical survey of the factors, which mostly influence individual investor behavior in the Greek Stock Exchange. The results revealed from 150 respondents, that there seems to be a certain degree of correlation between the factors that behavioral finance theory and previous empirical evidence identify as the influencing factors for the average equity investors, and the individual behavior of active investors in the Athens Stock Exchange.

Abdulla Yameen (2001) highlighted at seminar on capital market development at Maldives Monetary Authority that Capital Market development is a key policy objective for most Governments in developing countries, which have decided to undertake major reforms of their financial sectors to take full benefits of the internationalisation of world markets. He delivered the message to the business community that Capital Market Development is synonymous to Private Sector Development and they need to play a key role in this venture.

He also delivered the message to investors the need to broaden ownership and create a wide shareholder base for development of capital market. Investors will need to be alert to any new development in capital market and take advantage of the Investor Education and Awareness Campaign program which to be undertaken by the Capital
Market Section to acquaint of the risks and rewards of investing on the Capital market.

Speech was also focused on to create a new breed of financial intermediaries, which will deal on the market for their clients. These intermediaries have to be professionals with quite advanced knowledge on stock exchange operations, techniques, law and companies valuation. Investors depend to a large extent on their professional advice when investing on the market. Furthermore, these intermediaries must be men of integrity and honesty as they would deal with clients’ money Confidence of investors in these professionals is a key to the success of the capital market.

Makbul Rahim (2001) argued in his speech at seminar on capital market development at Maldives Monetary Authority that the regulatory framework must provide the right environment for the development and the growth of the market. To attain this type of enabling environment, the participation of all concerned; the issuers, the market intermediaries, the investors, the dealers, is essential. High standards of probity and professional conduct have to be maintained and reach world class standards. There is no way any market either small or big would operate if standards are undermined and there is a compromise in relation to these standards. Integrity is very important as well confidence. The development of a proper free flow of information and disclosure helps investors to make informed investment decisions.

P. M. Deleep Kumar and G. Raju (2001) argued that despite all-round development in terms of volume of funds mobilized in primary market, mutual fund sector and increase in trading volume, growth in mobilization of savings in shares and debentures has not improved. The study from 1993-94 to 1999-00, and showed that the capital market is becoming more and more risky and complex in nature so that ordinary investors are unable to keep track of its movement and direction. Hence mutual funds have become the investment vehicle of individual investors who want to reap the benefits of buoyant stock markets without risking their investment. It offers the small investors an alternative way to invest in capital markets.

The study revealed that the Indian market is probably more volatile than developed country markets, which is probably why a much higher proportion of savings in developed countries go into equities.
They also argued that the growth of Indian capital market has its impact on the numbers of investors in the country. Study of geographical distribution of investors among various places in the country provides a factual description of its distribution and analyses the trend of changes in this regard. More than half of individual shareowners in India belonged to just five cities. The distribution of share ownership by States and Union Territories show that just five States accounted for 74.7 per cent of the country’s share ownership population and 71.7 per cent of the aggregate value of the shareholdings of individuals in India. Among the five States Maharashtra tops the list with Gujarat as a distant second followed by West Bengal, Delhi and Tamil Nadu.

The economic development of the country requires huge financial resources, which necessitates the mobilisation of domestic savings. In India, household sector savings constitute a major component of the aggregate savings. It alone contributes more than two-third of gross domestic savings.

The review of trend reveals that the stock market reforms introduced in the nineties like dematerialisation, on-line trading etc., made stock market investment much simpler, safer and transparent. However investors view capital market with scepticism. People no longer invest money in equities as they have become disenchanted with their experience as shareowners. Many of the investors are interested in reducing their exposure to equity even in absolute terms rather than increasing it.

This may be due to the bitter experience of investors in both primary and secondary markets. The Government and other organisation have to keep in mind always that it is the investor’s hard earned savings that are staked at the capital market. The gullibility of the ill-informed investors is not the strength, but the weakness of the capital market. The potential investor must be properly educated and guided so that more money kept idle or invested in other fields will flow to the capital market.

In the midpoint of the study also argued that introduction of derivatives is the first step to hedge the risk of unfavourable movement in the market. This will also lower transaction cost and provides depth and liquidity to the market.
**Peter Carr and Dilip Madan (2001)** considered a single period economy for the study in which agents invest so as to maximize expected utility of terminal wealth. They assumed the existence three asset classes, namely a riskless asset (bond), a single risky asset (stock), and the European options of all strikes (derivatives).

In study they disclosed that generally does not formally consider derivatives securities as a potential investment vehicles. Derivatives are considered at all, they are only viewed as tactical vehicles for efficiently re-allocating funds across broad asset classes, such as cash, fixed income, equity and alternative investments. The purpose of their study to delineate the optimal derivatives positions for investors when they cannot trade continuously. They showed that under reasonable market conditions, derivatives comprise an important, interesting and separate asset class, imperfectly correlated with other broad asset classes.

They observed that zero cautiousness investors and positive cautiousness behave quite differently. Zero cautiousness investors fix their investment in a optimal customized fund at their risk tolerance and place all wealth in riskless asset. In contrast, investors with positive cautiousness fix their investment in riskless asset and invest all wealth in a customized derivative. They found that investor’s optimal payoff is increasing with the stock price if he/she is bullish, and is decreasing otherwise. However, they also found that the indifference point between long and short is when the expected return is the risk-free rate. Consequently, an investor whose expected return is above the risk-free rate, but below that required for the risk borne, should actually have an increasing payoff.

They argued that under homogeneous beliefs, differences in risk aversion across investors can induce a demand for derivatives on the part of all investors. For the special case of homogeneous beliefs, linear risk tolerance, and identical cautiousness, resulting two-fund separation implies that investors in the economy do not hold derivatives position. On the other hand, investor beliefs that differ from a risk tolerance weighted average of individual beliefs then the investor optimally holds derivatives. If derivatives are not held in our economy then the investor confines his holdings to the bond and the stock and the optimal derivatives position is zero.
Peter McKenzie (2001) in his speech at seminar on capital market development at Maldives Monetary Authority that the question might be raised is what does one do if one has some savings? The savings can be placed in the bank at a rate of interest of 6% or under the bed. However if a share market is established and there is a significant number of public companies involved in important areas of the economic life of the country, then investors will have an avenue for their savings. Investors have the opportunity to share in the growth of the tourism, retail, construction, public sector companies, in short, in the capital growth country. Once there are a number of investors exchanging their investment in a number of companies on the share market, it brings opportunities for a balanced portfolio of investments. Investors have a choice instead of placing their money in only one company they can pick areas of growth and move their money, buying and selling and placing it where it is going to be most profitable. The individual investor does not have to make an individual decision where to place his savings. These decisions are made by an expert fund manager within a mutual fund, which would spread the risk by spreading the investments across different sectors of the economy.

He also focused with giving example of New Zealand that a lot of money is going offshore because the stock market has not been performing so well. A lot more would have gone abroad, however if the stock market in New Zealand did not exist. A stock market in the country provides people with the opportunity to see their savings grow within their own economy and within their own country.

Hong Kong Exchanges and Clearing Ltd. (2002) surveyed on derivatives retail investors, and study conducts on 269 derivatives retail investors from November 2001 to March 2002 who investing in HKEx derivative products, and the investment behaviour, attitude and opinions of derivatives retail investor in Hong Kong.

The study analysed trading pattern by different investment characteristics:

The study argued first based on empirical evidence that years of trading experience and usual deal size have a positive correlation. That is the longer investor’s experience in the market, the larger his/her usual transaction amount. Second, Male investors traded to trade more frequently than female investors. Third, the usual deal size of investor with higher personal income traded to be larger. Fourth majority of
respondents are motivated by their stock trading experience to start derivatives trading. Fifth, trading for profit is the key reason for derivatives trading other than high rate of return, hedging, etc. Sixth, the most significant motivating factors are more liquid market and more transparent market. Seventh, majority of traders are infrequent in trade- 3 times or less in a month and Index futures is the most popular product to trade most frequently. Ninth, a large proportion of the investors invest in exchange cash products than derivatives or investment avenues.

The study also showed that compared to non-online traders, online traders have larger proportion of males and younger person with lower income. Online and non-online traders are found to have different motivating factors. Lower commission, more timely execution and online access to more information are more important to online traders. For non-online traders, security and reliability of the broker’s online system are their most important concerns if they are to trade online.

Through empirical evidence form investor’s opinion, study argued that the liquidity of derivatives products other than futures is low. High transaction costs or margin requirement is the barrier for active participation in derivatives market. But also shows that more active traders do not have much complaint towards transaction costs and margin requirement.

**S. M. Imamual Haque and Khan Ashfaq Ahmad (2002)** in their study presented and explained an agenda for healthy long-term development of the primary market ensuring continuation of participation of small investors. They argued that the sluggish trends in primary equity markets need to be reverse by restoring investors’ confidence in market.

The study revealed that management of pension funds offer new opportunities for business expansion for asset management companies. Savings for retirement essential seek long term growth and for that investment in equity is desirable. As per their study, the investment in pension funds in development countries like USA, UK, Japan, Canada and Germany, where percentage investment by pension funds in shares and mutual funds has been in the range of 42 percent (in case of Japan) to 71 percent (in case of USA). In India, a beginning by allowing pension funds to invest in equity funds, managed by mutual funds.
They concluded that investment by banks in equity market should be accorded a priority status in the same manner as accorded to Agriculture, Exports and Small-scale Industries. It is a well established fact that investments in equities give higher returns than debt and it would, therefore, be in the interest of the banks to invest in equities. And have also argued that worldwide equity investment by General Insurance Corporation are anywhere between 30 percent to 50 percent. Therefore there is a need for reconsideration to the proportion by GIC of India; LIC should earmark at least 15 percent of its investible funds for the equity market. This will also result in higher bonus to policyholders and lower premium rates, assuming the returns in equity investments are higher than debt.

**Warren Buffet (2002)** argued that derivatives as time bombs, both for the parties that deal in them and the economic system. Basically these instruments call for money to change hands at some future date, with the amount to be determined by one or more reference items, such as interest rates, stock prices, or currency values. Derivatives contracts are of varying duration, running sometimes to 20 or more years, and their value is often tied to several variables. Unless derivatives contracts are collateralized or guaranteed, their ultimate value also depends on the creditworthiness of the counter-parties to them. But before a contract is settled, the counter-parties record profits and losses – often huge in amount – in their current earnings statements without so much as a penny changing hands. Reported earnings on derivatives are often wildly overstated. That’s because today’s earnings are in a significant way based on estimates whose inaccuracy may not be exposed for many years.

He also argued that those who trade derivatives are usually paid, in whole or part, on “earnings” calculated by mark-to-market accounting. But often there is no real market, and “mark-to-model” is utilized. This substitution can bring on large-scale mischief. In extreme cases, mark-to-model degenerates into mark-to-myth.

Many people argue that derivatives reduce systemic problems, in that participant who can’t bear certain risks are able to transfer them to stronger hands. These people believe that derivatives act to stabilize the economy, facilitate trade, and eliminate bumps for individual participants. On a micro level, what they say is often true. He believes, however, that the macro picture is dangerous and getting more so. Large
amounts of risk, particularly credit risk, have become concentrated in the hands of relatively few derivatives dealers, who in addition trade extensively with one other. The troubles of one could quickly infect the others.

He said that the derivatives genie is now well out of the bottle, and these instruments will almost certainly multiply in variety and number until some event makes their toxicity clear. Central banks and governments have so far found no effective way to control, or even monitor, the risks posed by these contracts. Derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal.

Swarup K. S. (2003) discussed in his study the various measures of revival of common investor confidence in the Indian equity primary markets. The study was based on questionnaire survey results in ten cities of India. The cities were Kolkata, Bangalore, Pune, Chennai, New Delhi, Jaipur, Vadodara, Mumbai, Surat and Ahmedabad. A total of about 5,000 questionnaires were sent to the investors located in these cities using brokers, investor associations, managers of companies, professionals, Internet groups and other contacts. A response of 367 valid questionnaires was received.

He argued based on his empirical research that equity investors first enter capital market though investment in primary market. In India, common investors participating in the equity primary market is massive. The main reason for slump in equity offering is lack of investor confidence in the primary market. So it is important to understand the causes and measures of revival of investor confidence in the primary market. So it is important to understand the causes and measures of revival of investor confidence leading to capital mobilization and investment in right avenues creating, economic growth in the country. It appeared from the analysis that the investors give importance to own analysis as compared to brokers’ advice. They also consider market price as a better indicator than analyst recommendations.

The evidence from this study, suggested that investors need to be assured of some return and current level of risk associated with investment in market is very high. They had bad experience in terms of lower market price after listing and high issue price. Accordingly number of suggestive measures in terms of regulatory, policy level
and market oriented were suggested to improve the investor confidence in equity primary markets.

**Leyla Şenturk Ozer et al. (2004)** studied on “Financial risk perception of investors and finance specialist in the beginning of the stabilization period of Turkey”. The survey was applied to 100 finance specialist and 100 investors in Turkey. The study showed that the risk factor is one of the main determinants of investment decisions. Risk can be measured by variance, standard deviation or beta coefficient. Capital Asset Pricing Model holds that in an efficient market, return and risk will be positively correlated. Market participants that are rational investors ultimately should receive greater returns from more risky investments. But studies of behavioral finance claimed that investors do not always act rationally or consider all of the available information in their decision-making process. Their irrational behavior represents a radical break away from traditional economic theory that has previously considered investors as being able to make fully rational decisions and investment valuations.

They also concluded that the crisis and resulting deep recession in 2002 changed many things, including market confidence of investors and financial analysts. In addition to decreasing trading volume of Istanbul Stock Exchange (ISE), the number of individual investors reduced and investment horizon of investors shortened and liquid instruments.

**Jennifer Reynolds-Moehrle (2005)** examined in their study that how market participants changed the way they process earnings information after learning of the implementation of hedging activities. For study they used a sample of derivative user and non-user firms, this study empirically compares earnings predictability, forecast revision behavior, and the earnings response coefficients before and after the disclosure of hedging activity. And from particular study they came to know that analysts’ forecast accuracy increased and that unexpected earnings are incorporated into subsequent earnings forecasts to a greater extent subsequent to disclosure of sustained hedging activity. Additionally, the findings indicated an increase in the earnings-return relation in the hedging activity period.

funds investors in 10 urban and Semi-urban centers during April to June 2000. They said that in the financial market, ‘expectations’ of the investors play a vital role. They influence the price of the securities; the volume traded and determines quite a lot of things in actual practice. These ‘expectations’ of the investors influenced by their “perception” and human generally relate perception to action. The beliefs and actions of many investors are influenced by dissonance effect and endowment effect. At the retail level, investors are unique and are a highly heterogeneous group. Hence, their fund/scheme selection also widely differs. Investors demand inter-temporal wealth shifting as he or she progresses through the life cycle.

The study revealed that the most preferred vehicle is bank deposit with mutual funds and equity on fourth and sixth respectively. Majority investors are from male category and most of from graduate or higher qualification. The survey also revealed that the investment decision is made by investors on their own, and other sources influencing their selection decision are newspapers, magazine, brokers, television and friends or relatives. They argued performance of funds/scheme is most influencing factors for investment decision. Further, investors are influenced by the extent and quality of disclosure of information subsequent to their investment.

**Chris Veld and Yulia V. Veld-Merkoulova (2006)** studied risk perception of individual investors by asking experimental questions to 2226 members of a Dutch investor panel in Netherland. And for their study they took three asymmetric risk measures. The first one was semi-variance; this risk measure similar to the variance, but it only takes the deviation below the target return. The second and third risk measures were the probability of loss and the expected value of loss. They found that most investors implicitly use more than one risk measure. For those investors who systematically perceive risk according to the same risk measure, semi-variance of returns is most popular. They argued stock investors implicitly choose for semi-variance as risk measure, while bond investors favour probability of loss. The study stated that investors consider the original investment returns to be the most important benchmark, followed by the risk-free rate of return and the market return.

They also argued an increasing attention in investment profession for risk attitude of individual investors. This attention is partly caused by declining the stock prices
around the turn of the millennium. Study argued that investors with longer time horizon would generally be better off investing in stocks compared to investors with shorter time horizon. They find the result on reactions of investors against question of portfolio stocks decline by 20% that from sell stocks immediately to hold for at least another year. They knew through the question on risk perceptions that investors who are more risk tolerant would benefit from relatively larger investment in stocks.

Their study showed the investors optimize their utility by choosing the alternative with the lowest perceived risk.

G. N. Bajpai (2006) showed in his article related to significance, regulatory aspects and road ahead of capital market based on economic survey 2003-04 by Government of India, figures of financial year 2005-06 and from other literatures that capital market acts as a brake on channelling savings to low-yielding enterprises and impels enterprises to focus on performance. It continuously monitors performance through movements of share prices in the market and the threats of takeover. This improves efficiency of resource utilisation and thereby significantly increases returns on investment. As a result, savers and investors are not constrained by their individual abilities, but facilitated by the economy’s capability to invest and save, which inevitably enhances savings and investment in the economy. Thus, the capital market converts a given stock of investible resources into a larger flow of goods and services and augments economic growth. In fact, the literature is full of theoretical and empirical studies that have established causal robust (statistically significant) two-way relation between the developments in the securities market and economic growth.

To realize national aspirations and keep pace with the changing times, the capital markets in India have gone through various stages of liberalization, bringing about fundamental and structural changes in the market design and operation, resulting in broader investment choices, drastic reduction in transaction costs, and efficiency, transparency and safety as also increased integration with the global markets.

The study concluded the investors and issuers can take comfort and undertake transactions with confidence if the intermediaries as well as their employees (i.) follow a code of conduct and deal with probity and (ii) are capable of providing professional services.
India will do well because it is fully convinced that capital markets allow people to do more with their savings and ideas and talents than would otherwise be possible. In the process, it would also facilitate increasingly larger number of citizens participating in the capital market in some form or other and share the opportunity of profiting from economic gains.

J. K. Nayak (2006) analyzed the Indian capital market with major objective to find the changes that have occurred in the investors after liberalization. It was tried to study whether changes in the capital market policies and the new protectionist measures that have been taken have been effective in rising investors’ confidence. And for that ninety samples were selected and out of those nineteen questionnaires were rejected due to lack of proper information. The study highlighted and asserted that the domestic capital market is the predominant channel for financing corporate sector needs in India. It was examined through an empirical research about the existing and past problems involved in the equity market.

The study revealed the preferred mode of investment is first equity, banks, mutual fund and then any other in a descending order. It means that the government policy after liberalization is beneficial for the equity market. Investor’s faith has increased and their risk taking ability has also increased. One thing that could be drawn from this study is that problems are mostly broker related and therefore that is one area where reforms are required. The investors feel that the amount of knowledge available on the equity market is not satisfactory. Investors, it appears, need to be educated more.

Investors still considered the capital market as highly risky. But from the investment pattern from the descriptive statistics it seems that the number of people willing to invest in capital market has increased.

Narender L. Ahuja (2006) studied on commodity derivatives market in India with data analysed from 2000 to 2005. He showed India is one of the top producers of a large number of commodities, and also has a long history of trading in commodities and related derivatives. The market has made enormous progress in terms of technology, transparency and the trading activity. Interestingly, this has happened only after the Government protection was removed from a number of commodities,
and market forces were allowed to play their role. This should act as a major lesson for the policy makers in developing countries, that pricing and price risk management should be left to the market forces rather than trying to achieve these through administered price mechanisms. The management of price risk is going to assume even greater importance in future with the promotion of free trade and removal of trade barriers in the world. All this augurs well for the commodity derivatives markets.

He also argued Futures and options trading helps in hedging the price risk and also provides investment opportunity to speculators who are willing to assume risk for a possible return. Further, futures trading and the ensuing discovery of price can help farmers in deciding which crops to grow. They can also help in building a competitive edge and enable businesses to smoothen their earnings because non-hedging of the risk would increase the volatility of their quarterly earnings. Thus futures and options markets perform important functions that cannot be ignored in modern business environment. At the same time, it is true that too much speculative activity in essential commodities would destabilize the markets and therefore, these markets are normally regulated as per the laws of the country.

Randall Dodd and Stephany Griffith-Jones (2006) studied on derivatives market: stabilizing or speculative impact on Chile and comparison with Brazil between 1998 to 2005 said that derivatives markets serve two important economic purposes: risk shifting and price discovery. Risk shifting called hedging is the transfer of risk from one entity who does not want it to another entity that is more willing or able to wear it. Derivatives trading can help determine or discover the price of certain assets, commodities or types of risk that would not otherwise occur because of transaction costs, dispersion of markets for the underlying item or the conglomeration of many risks into one whole asset. One of the most important price discovery functions is the determination of the price of the underlying item. Derivatives markets can serve to determine not just spot prices but also future prices (and in the options the price of the risk is determined). One of the implications of efficient risk shifting is the ability to raise capital more cheaply in capital markets.
The efficiency of derivatives markets in discovering prices and providing risk shifting functions is linked to their liquidity and trading volume. And due to increment in trading volume, Chile’s derivatives market is large and growing rapidly.

In their study they showed the development of Chile’s cross currency swaps market has enabled some large corporations and banks to lower their cost of borrowing without increasing their exchange rate risk.

In the research, interviews with representatives from several major corporations revealed that they sometimes prefer to use options as a means to hedge when they are especially uncertain about the direction of change in the exchange rate. They also argued derivatives have a potential to encourage international capital inflows. They can improve pricing efficiency and provide means for investors to better manage their risks so as to encourage greater amounts of investments.

They argued with empirical evidence that require minimum capital requirements for all the derivatives dealers and set minimum collateral (also called margin) requirements for derivatives transactions. Collateral requirement apply to all the transactions, not just some institutions, and thus governs to entire market place. Adequate collateral usage will reduce the need for capital by reducing the collateral adjusted exposure to counterparty credit risk. These prudential measures help prevent liquidity or solvency problems at one firm from causing performance problems that impact other transactions and other firms. In so doing it reduces the costs of the externalities of risk-taking by reducing the likelihood of default on transactions and thereby reduces the market’s vulnerability.

K. Ravichandran (2007) said in India, generally all capital market investment avenues are perceived to be risky by the investors. But the younger generation investors are willing to invest in capital market instruments and that too very highly in Derivatives segment. Even though the knowledge to the investors in the Derivative segment is not adequate, they tend to take decisions with the help of the brokers or through their friends and were trying to invest in this market. This study was undertaken to find out the awareness level of various capital market instruments and also to find out their risk preference in various segments. And for this study 100 respondents were taken from Chennai city.
From empirical research he argued most of the investors are younger group and from majority male gender who qualified with graduate or post-graduate those invest 5% to 10% of their income whose income range of Rs. 1,00,000 to Rs. 5,00,000 per annum. The majority investors are influenced by friends and relatives to participate in the market. And out of 100 investors 29% were highly favorable towards the cash market, 30% towards the future market, 26% towards the options market and 30% stayed neutral towards commodities market. He also argued majority the investors want to invest in short-term funds instead of long-term funds that prefer wealth maximization instruments followed by steady growth instruments. Empirical study also shows that market risk and credit risk are the two major risks perceived by the investors, and for minimizing that risk they take the help of newspaper and financial experts. In his study most of the respondents said that high margin charged is their main barrier while dealing in derivatives market, feel that margin amount charged in the derivatives market should be in between Rs. 5,000 to Rs. 10,000.

From the evidence of various statistical tests he found that there exist a negative correlation between the income percentage on investment and the participation in derivative market. There is significant difference between the annual income and the income percentage towards investment. The investors who invest around 5-10% of their investment mostly consider the market risk as the major risk which prevails in the market. And also that the investors whose investment is around 10% of their income, consider that the affordable margin amount for investment in Derivatives is up to Rs10000/-.

On the base of his study he concluded that investing in stock markets is a major challenge ever for professionals. Derivatives acts as a major tool for reducing the risk involved in investing in stock markets for getting the best results out of it. The investors should be aware of the various hedging and speculation strategies, which can be used for reducing their risk. Awareness about the various uses of derivatives can help investors to reduce risk and increase profits. Though the stock market is subjected to high risk, by using derivatives the loss can be minimized to an extent.

**Nicole Branger and Beate Breuer (2007)** showed that investors can benefit from including derivatives into their portfolios. For retail investors, however, a direct
investment in derivatives is often too complicated. They argued if the investor can trade only in the stock and money market account, the exposure of his portfolio to volatility risk will be zero, and the relation between the exposure to stock diffusion risk and jump risk will be fixed. Investment certificate offer a potential solution to this problem. And for this they took different four types of certificates for the study namely discount certificate, sprint certificate, bonus certificate and rolling discount certificate. They analysed if retail investors who buy and hold their portfolio for one year can indeed benefit from investment in certificates. They had used a model for their research with stochastic volatility and jumps calibrated to the German stock market index DAX.

They proved through documentation both theoretically and empirically that investors can increase their utility significantly by trading plain vanilla options. And also told that in a complete market and with continuous trading, it does not matter which derivatives an investor uses to realize his optimal asset allocation. But with incomplete markets, and in particular, discrete trading, on the other hand, the choice of derivatives may actually matter a lot. This problem particularly sever for retail investor, who are hindered from implementing their optimal payoff profile by too high minimum investment amounts, high transaction costs or margin requirements, short-selling restrictions and may be also lack of knowledge.

In their study they assumed the investor can buy retail derivatives at a model price. In reality, however, retail derivatives come at a cost. They are not freely traded but can only be bought from and sold back to the issuer. In another analysis with transaction cost, they determine the optimal portfolio and compute the utility gain of an investor when he has access to derivatives. The result changed significantly, so they concluded that only contracts are attractive and the investor wants to hold which have less transaction cost than the potential benefits the contract might have to the investor. Thus, the investor prefers to invest his wealth into the stock and money market account only.

**Philipp Schmitz and Martin Weber (2007)** analyzed the trading behavior of individual investors in option-like securities. They make use of the facts that investors can speculate on rising and falling prices of the underlying with call and put warrants
and that they also have information about the stock portfolios of the investors. Their analysis was based on the individual transactions in bank-issued warrants on single stocks and indexes of individual investors, who trade with a large German online broker, to analyze the trading behavior of 1,454 investors, making 89,958 transactions in 6,724 warrants on 397 underlyings. Transaction information started at the beginning of 1997 and ended in the middle of April 2001.

They exposed that the trading behavior is also influenced if the underlying reaches some exceptional prices, e.g. highs, lows or the strike price. They also showed the hedging (as one natural candidate to buy puts) does not play an important role in the market for bank-issued warrants. The probability to buy calls is positively related to the holding of the underlying in the portfolio, meaning that investors tend to leverage their stock positions, while the relation between put purchases and portfolio holdings of the underlying is negative. Differences in the trading behavior in warrants with stock market indexes or single stocks as underlyings are small.

They also showed higher option market trading activity is positively correlated with past returns and volatility, and negatively correlated with book-to-market ratios. In addition they report that investors open and close long and short call positions if past week's return is positive and write puts as well as close bought and written put positions if the past returns are negative.

The main results of their analysis were that investors follow similar negative feedback trading strategies, as measured by past returns of the underlying, in their warrant investments; as do other individual investors on the stock market in the short-run. As similarly reported for the stock market, for past returns occurring longer ago, this behavior reverses to positive feedback trading for purchases whereas the contrarian behavior remains for sales. They also show that trading is more likely if the price of the underlying reaches eye-catching levels, e.g. the strike price of the warrant or it’s high or low over a period. Repurchases of call warrants on the same underlying are more likely compared to put warrants if investors have experienced a gain with a warrant on that underlying before and less likely if the underlying has lost in value since the investor closed another warrant position in that underlying.
B. Das, Ms. S. Mohanty and N. Chandra Shil (2008) studied the behavior of the investors in the selection of mutual funds and life insurance the investment vehicles in an Indian perspective which also to support in my study to know the investors’ behavior to select the investment alternatives For the study 100 interviews were made who invested in mutual funds or life insurance from two metros of Orissa viz.; Cuttack and Bhubaneswar between August to October 2007.

They argued from retail investors’ point of view, keeping large amount of money in bank is not wise as currently bank rate has fallen down below the inflation rate. As in real terms the value of money decreases over a period of time, the only options available for them is to invest their money in stock market. However retail investors face a lot of problem in the stock market; viz. limited resources, lack of professional advice, lack of information and so on. However investment is increasingly considered as a subject falling under behavioral science rather than finance or economics. It is governed more by trends and group behavior rather than rationality and cold calculation. Investors like consumers are also immensely influenced by fashions and what is “in-thing”. Moreover, investors are unique and are a highly heterogeneous group at the retail level.

Empirically they found and concluded which are valuable for both the investors and the companies having such investment opportunities. First, different investment avenues do not provide the same level of satisfaction respect to age of the retail investors in India. Secondly, majority of investors are from younger group. Thirdly, investors have extensive differences with respect to their professions and the different patterns of investment vary widely. Fourthly, the investment patterns provide more or less the same service; there exist differences depending on the education level of the investors. Fifthly, on an average government servants are investing to the maximum extent, whereas the students and other professional groups are in least. Sixthly, male investors are more as compared to females in Indian retail market. Seventhly, majority of the people are investing with the objective of capital growth. Eightly, majority of the investors belongs to the income group Rs. 2.5 to Rs 5 lakhs per annum. Ninthly, the brand image and past performance are highly correlated. And tenthly, most of the investors are in view that newspaper and magazine is the main source of information.
Cliff Mayfield, Grady Perdue & Kevin Wooten (2008) examined several psychological antecedents to both short-term and long-term investment intentions, with specific focus on the big five personality taxonomy. The results indicated that individuals who are more extraverted intend to engage in short-term investing, while those who are higher in risk aversion avoid this activity.

Gupta and Naveen Jain (2008) advocated in his book, investors’ preferences as well as their problems go on changing overtime. The study was based on an all India survey of 1463 household investors. The study found that majority of the investors are from younger group and as per occupation, salaried persons are more inclined towards investment. Study also argued education qualification is the major influenced factor in investment.

The samples were comprised mainly middle and upper middle class households. Their most preferred investment is found to be shares followed by mutual funds. Based on strong evidence, they argued that investors clearly prefer direct shareholding over mutual funds. Empirically they found and argued the Indian stock market is considerably dominated by the speculating crowd, the large scale of day trading and also fact the futures trading in individual stocks is several times the value of trading in cash segment.

They also found the largest proportions of the investors are worried about too much volatility of the market. For trader and speculators, price volatility is an opportunity to make quick profits. In the study, high proportions of investors have a very favorable opinion about the capital market regulation.

Prasanna P. K. (2008) argued foreign institutional investors have gained a significant role in Indian capital market. In his study, twenty-five Sensex scripts were taken as a sample for the period of 2001 to 2006. He empirically observed that foreign investors invested more in companies with a higher volume of shares owned by general public. He also argued promoters’ holdings and foreign investments are inversely related. Foreign investors choose the companies where family shareholding of promoters is not essential. The study concluded that corporate performance is the major influencing factor for investment decision for any investor. As far as financial performance is concerned the share return and earnings per share are significant
factors influencing investment decision. He also argued the hedge funds are playing a very active role in Indian stock market since 2003 by entering both Indian cash and derivatives market. The upward trend in the domestic market is due to hedge funds and not due to regular long-term FIIs.

Through his empirical research he concluded that there are speculations of wider range on the expectations of foreign institutional investors. It is required to understand when they withdraw their funds and when they pump in more money. Higher Sensex indices and high price earnings ratio are the country level factors attracting more investment in India. The foreign institutional investors withdraw their money when the stock market performance starts sliding down.

Deleep Kumar P M and Deyanandan M N (2009) analyzed the opinion of 300 retail investors in Kerala on the major market reforms as well as their investment performance. Study showed that capital market has always inspired investors by offering exciting opportunities for achieving handsome returns in the form of dividends and capital gains.

The study revealed 82.3 percent of respondents find the establishment of depositories and dematerialization of securities as useful in protecting the interest of investors while 83.7 percent of respondents viewed screen based trading as investor-friendly reform. A majority of the investors also opined the rolling settlement as a useful reform. Introduction of derivatives trading and internet trading are found useful by only a marginal group of investors.

The empirical results of the study concluded that even though SEBI claims itself to be the champion of investor protection, it has not been successful in instilling a sense of confidence in the minds of majority of investors. It showed that retail investors in general are not good at applying analytical tools on investment of their own. It can be seen that majority of the respondents are not satisfied with the quality of service provided by different market participants.

The result analysis showed 28 percent of respondents considered price manipulation and excessive speculation of brokers as their major concern while 27.3 percent viewed price volatility as the major issues in the capital market. They statistically
proved the level of income does not exert considerable influence on the performance of investment. Vast majority of respondents with less than 3 years market experience find investment in capital market as rewarding, while proportion is less with other groups.

G. Ramakrishna Reddy and Ch. Krishnudu (2009) studied on the investors’ perceptions and preferences of 550 rural investors in Rayalaseema region. The empirical study summarized that a majority of the investors are quite unaware of corporate investment avenues like equity, mutual funds, debt securities and deposits. They are highly aware of traditional investment avenues like real estate, bullion, bank deposits, life insurance schemes and small saving schemes.

Study argued the primary motive of investment among the small and individual investors is to earn a regular income either in form of interest or dividend on the investment made. The other motives like capital gains, tax benefits, and speculative profits are stated to be the secondary motives of investment. The majority of the investors of all income groups have preferred to adopt and follow monthly investment plans rather than the investment plans of other periodic intervals.

They concluded that the employment category of the investor is an important determinant of the periodicity of the investments among the small and individual investors. They found that a majority of the investors prefer to hold the investments in the joint names either with spouse or children or even both.

From empirical research they argued to motivate the people to invest their savings in the stock market to be achieved only if the regulatory authorities succeed in providing a manipulation free stock market. With the rate of interest offered by banks on deposits being very unattractive, more people could think of investing in the stock market. This could happen only if the stock market is transparent and free from scams because those who invest in bank deposits are basically averse to risk.

K. Logeshwari and V. Ramadevi (2009) studied the preferences of investors towards various investment avenues in relation to commodity market. The samples of 150 from the population were taken based on regular investors in Coimbatore city. They advocated that a commodities market provides a platform for the investors as
well as hedgers to protect their economic interests as well as increase their investible wealth. However, the preferences and patterns of the investors will help the commodity trading companies to focus their offerings to suit the needs of the commodity investors. Also, the companies should understand the expectations of their clients and their level of satisfaction. They also said that Commodity market is extremely liquid, risky and complex by nature. Commodity prices are generally less volatile than the stocks. Therefore it’s relatively safer to trade in commodities. But the volume being traded in commodities is much less than the stock market. This is because of the two reasons that the investors are less aware about the commodities market and their risk perception.

They argued the expectations of the investors are quite high. Many expect high rate of return for further investment through commodity market. The study also examined the phenomenal growth in commodity market which is ten times greater than the share market. The investment avenues of individual investors depend mainly on annual income as well as risk taking capacity of the individuals. Regularity in investing, percentage of savings also has a major impact in choosing the investments.

They proved with strong evidence that majority of the investors are from male gender between 26 years to 50 years age group whose qualification is postgraduate and from salaried group. And their annual income range is between Rs. 1, 00,000 to Rs. 5, 00,000 from that 25% to 50% income is invested in to the market. Most of the investors refer friends as their source of information. First rank is given to the high returns by majority of the investors who do their trading on daily basis. Major investors are traded up to the margin money below Rs. 5, 00,000 and 50% investors are not satisfied with commission charged. Most of the investors support to the statement that high risk is involved in the commodity market, and also said that past experience is the important factor to control the risk at the time of buying and selling the commodities.

From the results of their study they recommended the company can rise up its investments by educating the public about the benefits that they can reap from the commodities market through awareness programs, advertisements. The findings revealed that majority of the investors are within the age group of 26-35 years, so the
company can provide their customers some additional assistance like daily trading tips, daily positions, and general news for doing a better trading with the commodities market.

Nidhi Walia and Ravi Kiran (2009) studied to achieve the objective of developing an understanding about investor’s risk and return perception towards mutual funds in compare to other financial investment avenues, and to reduce the complexity of data responses the respondents were chosen those 100 investors who had prior experience of mutual fund investment from different region of Punjab. They argued that to satisfy the needs of investors’ mutual funds are designing more lucrative and innovative tools considering the appetite for risk taking of individual investors. A successful investor is one who strives to achieve not less than rate of return consistent with risk assumed. Thus, it becomes imperative to judge the presence of rationality in investment behavior.

From concrete results of their research, argued that once an investor finalizes a particular investment avenue with calculated risk next factor accountable for his final decision is quality of service delivered. For convenience and better interpretation about different group of investor’s responses, three categories were designed in order of age that includes Aggressive investors (below 30 years), Active investors (middle age) and reflexive investors (above 50 years). A study showed that investor’s age is a considerable determinant in setting investment objectives.

They also argued that investor’s behavior in terms of their willingness to accept risk depends upon their risk appetite or market sentiments that are spread in the market at the time of investment. Moreover, investor’s knowledge and their optimism about market volatility also influence their decision to select risky investment. Average preference Scores (APS) revealed the fact that individual investors admit capital market instruments i.e shares as the most risky investment in comparison to other investment avenues and mutual funds are opined to be next risky investment. APS also revealed that investors don’t deny the presence of risk in real estate but level of risk admitted is moderate and Government securities are admitted to be the least risky securities. The statistical analysis concluded that Insurance as an investment preference of investors emerges for uncertainty of future and proved that income
Study also argued that shares and bonds are observed as the first preference of those investors who are willing to take risk. Capital market instruments being most risky investment are expected to yield above normal return that can be expected from any other investment avenue and study proved that income of investors and risk perception for shares/bonds are related parameters of investment.

Through relationship study of income and investor’s perception for returns concluded the investor’s income is one of the crucial determinants that set the objective of investment in various avenues. And it was observed that individual investors mostly prefer shares as the best investment avenue in terms of return and quite close to it their next preference is for mutual funds. Insurance is considered as next preferred investment and government securities are considered to be last preferred investment.

They also argued as per observation by survey responses of the individual investor’s fact is clear that overall among other investment avenues capital market instruments are at the priority of investors but level of preference varies with different category/ level of income, and an association exists between income status of investors and their preference for capital market instrument with return as objective.

**Vinay Mishra and Harshita Bhatnagar (2009)** said in their article “A Conceptual Sketch of Derivatives Trading in India: A Regulatory Approach” that price fluctuations make it extremely strenuous for businesses to estimate their production costs and revenues. This has created certain risks in variety of markets. Financial markets are no exception and are systemically volatile. Therefore, it is the prime concern of all the financial agents to balance or hedge the related risk factors. This has induced the market participants to search for ways to manage risk.

They documented that Derivatives are considered to be extremely versatile financial instruments, as they help to manage risks, lower funding costs, enhance yields and diversify portfolios. The contributions made by derivatives have been so great that they have been credited with having ‘changed the face of finance’ in the world. However, today, the derivatives market has multiplied to several times its initial size and stands witness to its own rapid growth. Derivatives markets are an integral part of
capital markets in developed as well as in emerging market economies. These instruments assist business growth by disseminating effective price signals concerning exchange rates, indices and reference rates or other assets, thereby, rendering both cash and derivatives markets more efficient.

Ashutosh Vashishta and Satish Kumar (2010) studied encompasses scope an analysis of historical roots of derivative trading, types of derivative products, regulation and policy developments, trend and growth, future prospects and challenges of derivative market in India. Some space is devoted also to a brief discussion of the status of global derivatives markets vis-a-vis the Indian derivatives market. In their article they studied the figures from 2000 to 2009 of derivatives market of India.

The study concluded that risk is a characteristic feature of most commodity and capital markets. Variations in the prices of agricultural and non-agricultural commodities are induced, over time, by demand-supply dynamics. In the present highly uncertain business scenario, the importance of risk management is much greater than ever before. The emergence of derivatives market is an ingenious feat of financial engineering that provides an effective and less costly solution to the problem of risk that is embedded in the price unpredictability of the underlying asset. In India, the emergence and growth of derivatives market is relatively a recent phenomenon. Since its inception in June 2000, derivatives market has exhibited exponential growth both in terms of volume and number of traded contracts. NSE alone accounts for 99 percent of the derivatives trading in Indian markets.

Through study of available data and observation, they argued that NSE and BSE has added more products in their derivatives segment (Weekly Options, Currency futures, Mini Index etc.) but still it is far less than the depth and variety of products prevailing across many developed capital markets.

Daniel Dorn (2010) focused in his study on “investors with too many options” OTC options, specifically on call options on DAX 30 Performance Index traded on the Euwax between November 22, 1999 to May 31, 2000 in Germany. He concluded market for OTC derivatives have grown rapidly during the last decade in many Asian and European countries. He argued that in some countries such as Germany, the
trading volume in OTC options rivals that in options traded on traditional derivatives exchanges. Investors often face a choice between dozens of OTC options that differ only slightly in their attributes.

He gave the standard explanation in his study that observed plethora of choices is that banks compete to respond to the product preferences of rational investors. An alternative explanation is that low issuing costs and the most bounded rational investors sustain in equilibrium with product proliferation and prices that are dispersed and above marginal cost. The paper documents substantial price dispersion and poor investor choices whose characteristics are broadly consistent with the alternative view.

This paper examines the choices of discount brokerage investors. These investors do not receive bundled services such as financial advice with their trade. He argued that professional advice can help uninformed investor better navigate the menu of choices, unless issuers raise complexity or offer advisors incentives to share in industry profit. During last ten years, the complexity in OTC derivatives markets has substantially increased as banks have offered a rapidly increasing number of instruments.

David Nicolaus (2010) studied on “derivatives choice of retail investors” at Borse Stuttgart between June 2003 to June 2009 with DAX 30 and DowJones EUROSTOXX 50 in Germany. He showed that retail derivatives allow retail investors to pursue sophisticated trading and investment strategies and issuing banks to use their comparative advantage in structuring and hedging financial instruments. His result suggest that retail investors’ motivation for improving the after tax return of their household portfolio represents a major driver of the derivatives choice of the products and that provide only little equity exposure for the investor. His result documented that the performance of derivative choices on average underperforms a benchmark portfolio that consist of similar products that are available to retail investors.

He gave explanation for popularity of the instruments which can be used without the need to relinquish the premise of rational behaviour is that retail derivatives reveal the divergent belief of retail investors about the future price level of the underlying as these can be tailored to specific demand of the investor.
He argued the potential role of search costs and financial advice on the portfolio decisions of retail investors, the flexibility of retail derivatives and low issuance costs are likely to emphasize the existing frictions in financial retail markets such as an increase of strategies and heuristics used by retail investors to cope with the complex decision situation or an inadequate disclosure of conflicts of interest in financial retail markets.

**Gaurav Kabra, Prashant Mishra and Manoj Dash (2010)** studied key factors influencing investment behaviour and ways these factors impacts investment risk tolerance and decision making process among men and women and those different age groups. 150 respondents who invested regularly with minimum age criteria 22 years were taken as a sample. They said that not all investments will be profitable, as investor will not always make the correct investment decisions over the period of years. Each of the investment has common characteristics such as potential return and the risk investor must bear. The future is uncertain, and investor must determine how much risk he/she is willing to bear since higher return is associated with accepting more risk.

They concluded that inflation serves to increase awareness of the importance of financial planning and wise investment. Investors want to invest their money and earn certain rate of return which is more than rate of inflation.

Through evidence they proved that security as the most important criterion; there is no significant difference of security, opinion, hedging in all age group. But there is significant difference of awareness, benefits and duration in all age group.

They argued through descriptive analysis of factors basis of gender there is no significant difference of hedging on the basis of gender. But there is significant difference of security, awareness, benefits and duration on the basis of gender.

In generation basis, they proved the most dominant factor among 22-28 years group is benefits which is followed by awareness and then opinion; this age group are generally more risk takers and they are more eager to know about different types of schemes which are available in market. The most dominant factor among 28-40 years group is hedging which is followed by awareness then security and opinion; this age
group are moderate risk takers. The persons belong to this group are basically gives their maximum preference for saving or they wants to keep money safe for future use. The most dominant factor among 40-60 years group is hedging which is followed by awareness then duration then benefit and then security; this age group are risk averse people. They invest only in those types of investments which are risk free.

On gender basis, they proved the most dominant factor for males is awareness which is followed by Opinion. Males are generally more risk takers and they are more eager to know about different types of Schemes which are available in market. The dominant factor in case of females is a benefit which is followed by hedging. Which in turn shows that female are less risk takers. Females basically give their maximum preference for saving or they wants to keep money safe for future use. They invest only in those types of investment which are risk free.

From the empirical results they concluded the modern investor is a mature and adequately groomed person. In spite of the phenomenal growth in the security market and quality Initial Public Offerings (IPOs) in the market, the individual investors prefer investments according to their risk preference. Occasions of blind investments are scarce, as a majority of investors are found to be using some source and reference groups for taking decisions. Though they are in the trap of some kind of cognitive illusions such as overconfidence and narrow framing, they consider multiple factors and seek diversified information before executing some kind of investment transaction.

Rajiv Gupta (2010) argued in Capital Market 2009-10 IPO-QIP Report there have been several noticeable trends over the past five years. First, the size of offerings by Indian issuers has been growing and there are more and larger size global offerings reflecting the maturing and increasing depth of the Indian capital markets. Second, India has become a destination and region in its own right for 13 raising capital - previously companies could not raise more than a few hundred million, but now have capital issues like Reliance Power, in excess of Rs. 13,200 crore ($ 3 billion). While the ADR/GDR markets remain attractive, fewer companies are using that route as Indian markets have become strong and have the appetite for large transactions. Third,
Indian capital markets now attract companies across sectors, rather than in any single sector.

**R R Rajamohan (2010)** analyzed the determinants of household portfolio, particularly the ownership of risky assets, using a sample of 345 households from Coimbatore city. The study found the ownership of risky assets is the lowest in the age group of 31-40 and highest among the age group greater than 50 years. Nearly half of the respondents in the income categories of Rs. 2,50,001 – 3,00,00 and above Rs. 3,50,000 own risky assets. The education qualification is the most influencing factor to invest in risky assets.

He argued the role of the financial knowledge is important in decision making in information intensive assets like stocks and other risky securities. Hence, reading habit, as a proxy for financial knowledge. Younger people have greater labor flexibility than older people; if the returns on their investments turn out to be low, they could work more or retire later. In contrast, older people have to reduce their consumption in line with their income, and so may choose to limit their risk. Hence age an important factor to be considered in household portfolio analysis. The nature of work might expose investor to different kinds of information useful to investment. For example, an individual working in financial services industry is expected to have better knowledge of savings and investment.

**Sheng-Hung Chen and Chun-Hung Tsai (2010)** wanted to identifying key factors influencing individual investor’s decision to make portfolio choices is of importance to understand their heterogeneous investment behavior. And for this study they surveyed of 285 respondents from January to February 2009. For analysis they used conjoint analysis and survey. Conjoint analysis examines how individuals derive preferences for products or services by assuming that they sum individual utilities we called total utility, for each attribute to obtain the overall utility for a product or service. This approach could examine how individual investors derive their preferences for financial assets by assuming that they sum individual utilities for each attribute to obtain the overall utility for financial assets.
In this paper they decomposed socio-economic stats difference in investment preference for portfolio choices with respect to investor’s gender, age, income level, marital status, education level and household income level.

In their study by various statistical tools and techniques they confirmed that men would have greater risk tolerance than women. And also stated female investors tend to be more detail oriented; they tend to want to read more about and understand their investments better, and they ask more questions.

Their second argument was the elder is more likely to have low level of risk tolerance; it implies that with age increasing investors have a decreasing preference for investment on risky assets. In addition to, the younger is more percentage to have high level of risk tolerance; it means that younger is less preference for investment on riskless asset than elder.

In educational factor, they found that individual investors with higher qualification are more likely to invest in risky asset. The level of education is thought to impact on a person’s ability to accept risk.

They argued income and wealth are two related factors that are hypothesized to exert a positive relationship on the preferred level of risk. Alternatively, wealthy people may be more conservative with their money while people with low levels of personal wealth may view risky investments. Its means increasing income level of individual investor is associated with increased levels of risk tolerance.

At last they argued on marital status that it is a important demographic that impacts on the preferred level of risk or risk tolerance in the investment process that single investors are more risk tolerance than married investors.

Shyan-Rong Chou, Gow-Liang Huang and Hui-Lin Hsu (2010) said the subprime mortgage crisis of 2008 and the global financial crisis of 2009 have caused investors in financial products serious losses. This and the risks inherent to financial products have given rise to a more cautious attitude towards such investments. Faced with the series of financial events leading to the current turmoil, unpleasant investor experience has become common and these personal experiences and reports of such are demonstrated in risk and attitudes to risk. This study used a 327 questionnaire to
investigate investor behavior and attitudes in Taiwan. The questionnaire gathered responses related to investment instrument ranging from low risk term deposits to high-risk financial products including stocks, structured notes, investment insurance policies, futures and options.

The paper showed that over the past decade, financial institutions have designed financial products having varying degrees of risk to meet differing investor preferences. Thus investors are able to choose an investment with potential risk and returns to suit their own preferences. However, at the time of purchase, investor behavior is formed by factors including expert advice from management consultants, and reference to past investment experience. Through the formation of their risk attitude, investors build their forecast of potential return on financial products. Products of lower potential profit are tolerated when the risk associated with those products is similarly low. Ordinarily, higher risk products are acceptable to investors when the premiums are more attractive. When the assessment of risk and potential returns is appropriately balanced in the investors view, a purchase will ensue.

In their study they found that attitude to risk is very similar for both the genders. They argued with supported literature and empirical study that past experience, or historical outcomes that the more experience investors have, their risk propensity is relatively higher. Conservative investors naturally reduce their investment transactions to avoid the chance of incurring losses. Therefore these investors’ risk propensity is relatively lower. The study shows that in Taiwan, most stock trading is transacted by individual rather than institutional investors, therefore the capital gains and losses from stock price fluctuations are felt first-hand by individual investors.

As far as marital status of investors is concerned they argued that married subjects are more experienced than their unmarried counterparts, except in the case of investment insurance policies. For this type of product there is no significant difference in attitudes. The phenomenon of purchases of other financial products such as stocks, funds and even structured notes etc occurred significantly more in the married group which indicates these products are more saleable to older married people who prefer to be in control of their own risk tolerance and have more disposable income available for investment.
Yu-Jane Liu, Ming-Chun Wang and Longkai Zhao (2010) stated that it is easy to become susceptible to narrow framing when trading in complex derivatives markets. Traders’ professionalism, sophistication and trading experience are related with the degree of narrow framing, these factors help to reduce investors’ behavioral bias. The results of this paper shed light on the decision-making process in an options market.

For the study, they obtained options and futures data from the Taiwan Futures Exchange (TAIFEX) for 753 trading days between December 24, 2001 and December 31, 2004. The contracts were Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX) options and stock options.

This study classified five groups of traders by their ID codes, and their occupation categories, including individual traders (INDIVs); local companies (LOCALs); qualified foreign institutional investors (QFIIs); securities investment trust and consulting enterprises (SITCs); as well as dealers, brokers of futures commission merchants, and securities firms (DBs) which are ranked from the lowest to the highest professional ability. The number of traders in each group was 167, 920, 226, 26, 210 and 61, respectively.

The study showed that options are important investment financial instruments as their flexibility makes financial market complete. However, options trading involves considering many variables and choices, which requires time and practice on the part of investors. Accordingly, options are complicated for those who do not educate themselves on the subject.

They found evidence that retail investors exhibit narrow framing more often in an options market compared with local companies; qualified foreign institutional investors; securities firms; securities investment trust and consulting enterprises; dealers; and brokers of futures commission merchants. A trader who is more professional, sophisticated, and experienced is less susceptible to isolate his decision-making sets and simplify complicated investment strategies to form his portfolios.

They also found traders’ professional trading abilities, sophistication, and trading experience are negatively related to the degree of narrow framing, implying that these factors can alleviate investor behavioral biases. They also demonstrated that in much
more complex derivatives markets, traders tend to simplify the complicated trading strategies into easily understandable investment decisions.

Investors may trade options for purposes of speculation, hedging or arbitrage. This seems to imply that individuals have the greatest propensity for narrow framing. QFIIs, SITCs and DBs, these three types of traders executed an average of two trades a day. Accordingly, they are inclined to a broader degree of framing in their investment decisions. The study revealed that traders in option markets don’t trade call/put contracts to such a great degree. In general, most investors prefer to trade front-month or near-the-money. Regarding percentages of trading in a futures market for option traders, the value is 51%, which suggests that almost half of the investors are trading in both options and futures market. It seems that the degree of professional ability of traders is greater, and the percentage of population who trade in both markets is larger. This implies that more professional traders are also more sophisticated traders. The results of three experience reveals that trading experience does affect traders’ framed decisions. The more experience a trader has, the less narrow framing he exhibits.

D. Kandavel (2011) presented study looking at the perception level of the retail investors towards investment in mutual funds. The small investor purchase behavior does not have a high level of coherence due to the influence of different purchase factors. The study reveals that the buying intent of a mutual fund product by small investor can be due to multiple reasons depending upon customer risk return trade off.

Gopikrishna Suvanam & Amit Trivedi (2011) studied of effect of hedging of structured products on exchange traded equity products. They looked at various aspects of the structured product markets including the motivation to buy, the risks of the products, the hedging behavior and the effect of hedging on exchange traded products.

The study showed that derivative trading is essential tool for the health of markets as they enhance price discovery and supplement liquidity. In a span of a year and a half after that index options, stock options and lastly stock futures were introduced. Since then, derivatives volumes have grown to multiples of cash market volumes and have been a mode of speculation and hedging for market participants, not possible
otherwise through cash markets. With the advent of structured products, many retail and HNI investors have been able to invest for more exotic payoffs compared to linear payoff they used to realize from their cash investments. The investor invests for a certain period, the issuer of the product constantly uses derivatives segment to hedge his positions to create the desired payoff for its clients.

**M. Sathish, K. J. Naveen and V. Jeevanantham (2011)** studied on investor’s perception towards investment in mutual funds with objectives to analyse the perception of investors on various investment options, to analyse the motivational factors of mutual funds investors and to study why the investors are not ready to invest in mutual funds. Since numbers of investors in to mutual funds were not known, 103 respondents were interviewed based on convenience and out of that 65% respondents were engaged in to the investment in mutual funds from Coimbatore district. Study addressed that in the options available to investors are different and the factors motivating the investors to invest are governed by their socio-economic profile including expected return and risk tolerance. In short, the investment decision making process is a multi-faceted subject to change over a period of time. An attempt was made in this study to identify the perceptual factors which influence the investors to invest in investment avenues.

They argued that instead of investing directly, the investors particularly, small investors may go for indirect investment through the mutual funds because they may not be in a position to undertake fundamental and technical analysis before they decide about their investment options. Neither do they have the resources nor the expertise to do so.

Their empirical study showed that majority of the investors of mutual funds is also belongs to equities who give the first preference to that avenue which gives good return. It is cleared from study that those who prefer the mutual funds they are not ready to take high risk. They proved and concluded from study that tax benefits, returns, liquidity, savings and other all the reasons have unique ranking among the investors. They also argued that diversification of portfolio is the top most factor that motivates investors to invest in mutual funds. Through their findings they have
argued that a majority of investors have stated that lack of knowledge as the primary reason for not investing in mutual funds.

**P. Varadharajan and P. Vikraman (2011)** focused to identify the investor’s perception towards investment decision in equity market. The study reveals that there exists an independency between the demographics, majority of the factors and the returns obtained. It is also evident that investment strategies of people keep on changing as well as the factors that influence the decision making keeps changing.

**S. Gupta, P. Chawla and S. Harkant (2011)** stated that investment in mutual funds is affected by perception of investors. Financial markets are constantly becoming more efficient providing more promising solutions to the investors. The study was carried out through questionnaire survey of investors in Ahmedabad conducted in the month of April-June 2010.

They argued based on empirical results that majority of investors are aware about mutual funds and are willing to invest in mutual funds. And study also proved that occupation of the investor is not affected in investment decision for mutual funds.

The study found the most preferred investment avenues is insurance with least equity market. And others preferred are fixed deposits, mutual funds and post savings, respectively. The survey indicated that majority of the investment in mutual funds from salaried and businessman under income range of Rs 15000 to 25000 per month. The study also argued that return on investment and safety are the most preferred attributes for the investment decision instead of liquidity.

**S. Saravanakumar, S. Gunasekaran and R. Aarthy (2011)** undertook a study to know the investors attitude towards risk and return content in equity and derivative security and to predict which will be more profitable to them. This study consisted of 100 samples, which were collected from the investors in various parts of Tamilnadu.

They showed in study that in India, the financial market system is equipped with capital market and money market. The investors are provided wide range of Investment Avenue in both the markets. The upswing in capital market allows the investors to harvest handsome return in their investments, but day-trader in stock market hard to take advantage in bullish and bearish market conditions by holding
long or short positions. Now the derivative instruments like, futures, options, swaps offer them to hedge against the adverse conditions in the stock market.

Through the empirical results of their study, they argued that (i) majority investors are belongs to male category (ii) investors from younger group are more inclined with equity and derivatives segment (iii) education qualification is most affecting factor to the investment in market (iv) majority of the investors are from business group in equity and derivatives market (v) most of the investors have income range Rs. 10000 to Rs. 20000 per month (vi) majority investors are making decision through opinion of their friends or relatives (vii) most of the investors who use their own efforts as an investment information (viii) secondary market is the most preferred than primary market (ix) most preferred holding period is mid-term than long-term or short-term (x) cash market is the most preferred market than derivatives market because of high risk (xi) derivatives market is preferred than cash market for higher return (xii) delivery trading is more safer than intraday trading (xiii) majority of the investors are aware about risk involved in derivatives market (xiv) most of the investors are not agree with benefit in intraday transaction.

They also proved with hypothesis testing that there is no relationship between the income of the investor and terms of investment. There is a no relationship between the Occupation of the investor and investment decision. And there is a relationship between the age of the investors and margin funding in share trading.

Sanjay Kanti Das (2011) has analyzed preferred investment avenues of the household. The study reveals that insurance products still remains the most preferred investment avenues of the household. The results also highlight that certain factors like education level, awareness about the financial system, age of investors etc make significant impact while deciding on the avenues for investment.

Dhiraj Jain & Ruhika Kothari (2012) attempted to identify the awareness, preferences, problems and attitude of investors towards various deposit schemes offered by the post office. The study reveals that demographic factors have no significant influence over the opinion towards post Office Deposits Schemes except monthly income and educational qualification.
Sanjay Kanti Das (2012) made an effort to study the investment habits and preferred investment avenues of the household. This study examines the investment attitude, their preferences & knowledge about capital market institutions and instruments. This study also reveals that in most cases investors across all categories found them to be safer in taking up the insurance policies.

Himanshu Barot & V.K. Sapovadia (2012) found in their empirical study that investment is the key investment for any nation for economic development, but where, when and how it is done its important. The study has also found that the investors are losing their capital even due to not able to hedge it because don’t have enough knowledge of derivatives products and strategy; they are just following to brokers, friends and relative. Study also argues that cash segment is more preferred than derivatives segment in the investors group.