



RISK AND RETURN FROM TRADING IN INDIAN CASH AND FUTURES MARKET

Naresh N. Poturaju	Lecturer, SKPIMCS- MBA, Gandhinagar, Gujarat
Dr. A.K.Asthana	Director, Institute of Cooperative Management, Bhopal.
Vandana Poturaju	Lecturer, Gujarat Forensic Sciences University, Gujarat

ABSTRACT There is a tremendous increase in participation amongst investors in the Individual cash futures segment in the Indian stock markets. Both the cash and futures market have a great risk of both principal risk and returns earning risk but risk can be managed or mitigated with well developed strategies. These strategies form a base for earning higher returns at lower risk levels. Thus a study was conducted to know the trading strategies of 50 investors of Gandhinagar, who are dealing with both cash and futures market. The five parameters used for knowing the investors trading strategies were Information sharing, Risk management, Returns expectation, and Self-education and investors psychology. It can be seen from the survey that almost all investors have different trading strategies for cash and futures market trading.

KEYWORDS cash market, futures market, risk, return, trading strategies.

1. INTRODUCTION

The people who never invest in stock market always question themselves why do people invest in stock markets? And the people who regularly trade and invest in stock markets think that why don't all people invest in stock markets. The answer is simple. As all do not know how to earn from stock markets and there is no fool proof way of keeping the risk of loss to zero people keep away or invest in the stock markets. The same is the case of cash market and futures market investors. All cash market investors think why people invest in futures when there is so much scope in cash market itself whereas the futures market participants think why many cash don't market participants' trade in futures market. The answer lies in risk and reward expectations of the investors.

So the known fact is that futures market is profitable venture but many cash market investors are not fully aware of how the market works and what the modes of entering into trades are. Also due to the unavailability of expertise of stock brokers in futures and derivative segments many investors get replies from their brokers like futures market is very risky and there is no scope of profitability in this segment. Whereas the reality is most institutional investors, banks, fund houses and large financial institutions have their presence in the entire derivative segment which proves that if a well defined trading strategy is put into practice risk can be minimized and returns can be maximized from both cash and futures market.

2. REVIEW OF LITERATURE

K Kiran Kumar, (2007) analysed the impact of introduction of derivatives segment from the early 2000s onwards as it has led both to interactions between the spot and futures markets, which is of interest to regulators in controlling any possible harmful influences of this new trading segment. Even though there was a lack of strong stock lending mechanism The Individual Stock Futures (ISF) segment has been of phenomenal success on Indian bourses and NSE is consistently ranked number one in world ISF segment. It is expected that the futures prices can reflect additional information, over and above that already reflected in the spot price, given the leverage benefits and so can serve as a leading indicator for the spot price. The study looks at the ISF contribution to the spot market segment.

Jatinder Bir Singh, (2004) explored the hessian cash price variability before and after the introduction of futures trading to ascertain whether the futures market help in reducing the intra-seasonal and/or inter-seasonal price fluctuations by using a multiplicative dummy variable model is to examine the price variation difference in the two periods. The evidence suggests that

futures market has reduced the price volatility in the hessian cash market.

3. SCOPE OF THE STUDY

The present study aims to compare the overall profitability between the cash and the futures market by comparing the investors trading strategies in both the markets. However the results may vary on comparison of cash market strategies with options. Thus the present paper is restricted to compare with cash market with futures market only of 50 individual retail investors.

4. OBJECTIVES OF THE STUDY

Based on the proposed research the objectives of the study were limited to.

1. To know the various trading strategies used in cash and futures market.
2. To know the impact of information sharing, risk taking and return expectations and self education of investors on trading strategies.
3. o see if investors have different trading strategy for cash market and futures market.

5. RESEARCH METHODOLOGY:

Convenience sampling was used to select 50 respondents from Gandhinagar city. The primary data was collected by surveying 50 investors who invest in both cash and futures market on a structured questionnaire with a five point likert scale type questions and few basic information questions.

6. ANALYSIS AND INTERPRETATION:

The respondents were asked questions to know trading strategies in cash and futures market based on parameters like information sharing, risk management, returns expectation and self education. The following are the summarized results

n = 50, converted in %	1= S.D	2=D,	3=N	4=A	5 = S.A
1.	I trade mostly in blue chip shares				
Cash Market	10	22	30	16	11
Futures Market	8	16	44	12	20
2.	I avoid newly listed shares.				
Cash Market	8	6	12	30	44
Futures Market	12	8	8	46	26
3.	I feel markets are less risky these days.				
Cash Market	14	22	18	26	20
Futures Market	34	26	12	18	10
4.	I heavily rely on my broker's tips.				

Cash Market	6	10	2	52	30
Futures Market	12	16	14	32	26
5.	I find trading software helpful.				
Cash Market	8	20	4	36	22
Futures Market	14	16	6	50	14
6.	I find the tips through S.M.S as misleading				
Cash Market	12	10	2	44	32
Futures Market	6	8	6	42	38
7.	I find stock/derivative investments more attractive than bank fixed deposits.				
Cash Market	14	8	8	48	22
Futures Market	20	18	2	22	38
8.	I many times sell and just then the prices rise.				
Cash Market	18	34	6	28	14
Futures Market	4	16	6	44	30
9.	I trade for capital gains than dividends.				
Cash Market	10	8	2	52	28
Futures Market	--	--	--	--	--
10.	Trading in futures market helped me understand cash market better.				
Cash Market	--	--	--	--	--
Futures Market	14	16	12	36	22

Source: - Primary Data

7. FINDINGS

Most investors said it doesn't matter if it is blue chip share or not as any other share with profit potential is available they are willing to invest in it. More than 70% of respondents avoid trading in newly listed companies in cash and futures market. 46% of cash market investors feel that markets are less risky these days where as 60% disagree in futures market. 82% and 58% of respondents heavily rely on their stock broker for tips in cash and futures market respectively. More than 60% of respondents in both cash and futures market find trading software's helpful. 76% and 80% of respondents have found the tips through S.M.S as misleading in cash and futures market respectively. 70% find stock investments attractive over bank fixed deposits and 60% find futures market attractive over bank fixed deposits. Majority of investors in both the markets have reported the occurrence of price rise after they have sold off their shares/position. 80% cash market participant's trade for capital appreciation and 58% of respondents have benefited in understanding the cash market better after trading in futures.

8. SUGGESTIONS

As majority of investors find stock/futures attractive over bank fixed deposits (risk free investments) it shows their willingness to take risk for the higher returns potential that the stock/futures offers. Though cash market investors feel the market less risky these days as investors are also trading in non blue chip shares, rely heavily on brokers advice and have faced misleading S.M.S tips for trading it is highly recommended to have a strong risk management strategy as in case of a steep fall in market or brokers calculations going wrong heavy losses will be faced. Strategies like checking the portfolio daily (if possible more than once in a day, especially during trading hours), setting realistic profit targets and timely profit booking, removing some loss making shares and adding few growing shares, watching stock market news and being fundamentally aware about the companies in which one invests/trades should be the part of risk management strategy. 70% avoid newly listed companies which show their concern for risk but it should be done on the basis of strong research and not just that every time you leave out newly listed companies as it can create an opportunity loss. Also the investors who trade for capital gains should learn to hold it longer for the right time to sell as the

occurrence of price rising just after they sold off is reported. As 58% of investors confirm that they have benefited in understanding the cash market better by trading in futures segment it is strongly recommended that all cash market participants should be at least be aware of working of futures market and how it affects the cash market. Because the cash and futures market are linked in so many ways like price discovery, volatility increase or decrease in each market, price stabilization etc. the investors of cash market will definitely be well of by knowing the futures market in earning superior returns and managing cash market risk better.

9. CONCLUSION

The present study shows that most investors though deny on being a risk taker but primary data shows risk taking of investors. Aspects like relying on broker for tips for trading, trading in non blue chip share companies, having preference of stock/futures investment over bank fixed deposits and having experienced misleading S.M.S tips proves that their investments did face risk of loss and risk of maximizing profits. Thus all investors need a strong risk management strategy for covering principal risk.

REFERENCES:

- [1] Antoniou, A., & Holmes, P. (1995), "Futures trading, information and spot price volatility: Evidence for the FTSE – 100 stock index futures contract using GARCH," *Journal of Banking and Finance*, Vol. 19, pp. 117–129.
- [2] Kumar, Kiran, and Chakrapani Chaturvedula. "Price leadership between spot and futures markets." *Journal of Applied Finance and Banking* 3.1 (2013): 93.
- [3] Singh, Jatinder Bir. "Futures Markets and Price Stabilization-Evidence From Indian Hessian Market." (2007).
- [4] S. Jackline and Malabika Deo (2011), "Lead - lag relationship between the futures and spot." *Journal of Economics and International Finance* Vol. 3(7), pp. 424-427.