



## INVESTORS ATTITUDE AND PERCEPTION TOWARDS COMMODITY MARKET - A STUDY WITH SPECIAL REFERENCE TO VIRUDHUNAGAR DISTRICT

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### INTRODUCTION

The finance is being studied for thousands years and behavioral finance which considers human behaviors in finance is a quite new area. Behavioral finance theories, which are based on the psychology, attempt to understand how emotions and cognitive errors influence individual investors' behaviors. In our country the information content of the market and the change of economic climate systematically influence individuals' investment decisions as well as market outcomes. As the investor's investment decisions in any one particular market tend to rely more on their behavior derived from psychological principles of decision making, a better understanding of behavioral processes and outcomes is important for financial planners.

### STATEMENT OF THE PROBLEM

The individual investor's decision to invest in the commodity market will determine the level of funds available and the efficient functioning of the market. Therefore investment decisions need to undergo a thorough analysis of the situations prevailing based on a number of factors, however regardless of the varied information available that justifies rationality and irrationality, investors are keen to avoid uncertainties associated with the ultimate decisions they engage in. Hence, investors have to consider many factors like Economic environment, Political stability, Industrial growth etc., before they invest. To encourage, enhance and safeguard investor, a number of reforms have been initiated by the Security Exchange Board of India (SEBI). Even though the information provided to the investor is not sufficient. Hence the investor and the stock market players are searching for required information through different ways. Individual investors suffer in this market in manifold like high transaction costs, poor liquidity, non-availability of timely and appropriate information and absence of unnecessary frictions etc. For instance, investors are not willing to invest more and they face

maximum risk and constraints in the course of their participation in the market. Because of it they cannot easily get their cash whenever they desire to get out of the market. It is important to explore factors influencing the decision of investors.

An investment in commodity market is high risky than that of the stock market. So it needs proper guidelines and education to all investors. Understanding of investors' behavior and outcomes through behavior process in the form investment decision and identifying factors play an important role in determining the behavior of investors is much important for financial planners and market brokers as well as the government., because it would help them devise appropriate asset allocation strategies to their clients but studying the investor's perception, expectation, and satisfaction level on their investment avenue is very difficult. In this background, the study has raised the following research questions:

- i) What are the factors that affect the individual investor's behavior especially in commodity market?
- ii) To what extent individual investors awareness towards commodity markets?

These questions help to define the focus, significance, and objectives of the study.

### **OBJECTIVES OF THE STUDY**

The present study is undertaken with the following specific objectives.

1. To study commodity market trends and its trading practices in India.
2. To analysis the investment behaviour of investors in commodity market

### **HYPOTHESIS**

The following hypotheses were formulated and tested in the present study

“Various socio-economic factors of investors have no significant influence on investment behaviour”.

### **RESEARCH METHODOLOGY**

**Type of Research:** Based on the objectives of the study, the research is exploratory and conclusive in nature.

**Nature of Data:** The current study based on both primary as well as secondary data.

**Tools for Data Collection:** The primary data was collected through structured interview schedule. The officials of Security Exchange Board of India (SEBI) and various regional stock exchanges have been consulted to gather information for constructing the schedules. The secondary data was collected from the published and unpublished records, annual reports of SEBI and NSE web sites, manuals, bulletins, booklets, journals, newspapers, magazines, etc.,

**Pilot Study:** Prior to final data collection, the researcher was conducted a pilot study from 50 sample respondents for pre- testing the interview schedule. After the collection of sample data, the researcher scrutinized the questions given in the interview schedule for consistency, reliability and validity. The researcher also tested the consistency of the statements to know the strong views of the respondents on factors influencing investment.

**Selection of the Sample:** The present study stratified random sampling technique was used for sample selection. By using deliberate sampling or judgment sampling method the state of Tamilnadu and Virudhunagar district was selected as sample state and district. Next stage the revenue divisions of this district were selected as sample revenue divisions particularly Aruppukkottai and Sivakasi in Virudhunagar district. In Virudhunagar district comprise more than 50 active stock and commodity broking institutions. Out of which top 10 active stock broking institutions were selected based on its brokerage market share. In contrast, stratified random sampling allows us to stratifying the population by a criterion (in this case, the brokerage market share), then choose random sample or systematic sample from each strata. For this purpose, list of active trading members was collected from selected commodity broking institutions. From branches of these ten institutions in the selected revenue divisions, 50 active investors who have been trading for the more than one year were picked up purposively. Based on availability and accessibility, only 500 investors were found to be the sample size. These selected respondents were further stratified into several sub-groups (strata) viz. age, gender, marital status, educational level, occupation, family size, number of earning members in the family, monthly family income, type of investor, category of investor and type of market operated.

### **Investment Goal of the Respondent**

Consuming everything today and saving nothing for the future is foolish. Financial investment ensures peoples save for rainy days. An individual must plan his future well to ensure happiness for himself as well as his immediate family members. Careful investment makes investors future secure. There are lots of goals for investment, in this aspect the researcher interested to know the goal of investment by the respondents in commodity market. The results are presented in Table 1.

**Table 1 General Investment Goal of the Respondent**

Sl.No	Investment Goal	No. of Respondents	Percentage
1.	To increase wealth	267	53.4
2.	Regular income	192	38.4
3.	Diversification for reduced risk	41	8.2
	Total	500	100.0

Source: Computed from Primary data

Table 1 clearly shows that 267 (53.4 %) investor’s goal is to increase wealth, 192 (38.4%) of the investor’s goal is to generate regular income and 41 (8.2%) of the investor’s goal is to diversification for reduced risk. Therefore increase wealth is the main motive of the investors behind their investment in commodity market.

**Term of Investment Preferred by Respondent**

On category based the investors differ as long, medium and short term investors. The following frequency distribution Table 2 presents the different categories of investors in term of investment.

**Table 2- Term of Investment Preferred by Respondent**

Sl. No	Term of Investment	No. of Respondents	Percentage
1.	Long term	64	12.8
2.	Medium term	202	40.4
3.	Short term	234	46.8
	Total	500	100.0

Source: Computed from Primary data

It could found from the above table 2 that 12.8 per cent of the respondents have invested for long term 40.4 per cent of the respondents have invested in medium term and it is also found that 46.8 per cent of the investors have the habit of short term investment in commodity market. From the above analysis it is concluded that maximum number of respondents are interested towards medium and short term investment.

**Source of Information for Commodity Market**

A successful investor in commodity and securities market must keep himself abreast of the latest information, all the required information especially the one relating to specific companies, commodity, price available at one place, so investors are able to get transparent information about their dealings in commodity market through various avenues like Journals and magazines, newspaper, Television, stock brokers, investment consultancy, web sites and friends and relatives. The following table 3 presents the combined frequency distribution of various avenues of information.

**Table 3 Source of Information for Commodity Market**

Sl. No	Source of Information	No. of Respondents	Percentage
1.	Newspapers	53	10.6
2.	Television	86	17.2
3.	Friends & Relatives	64	12.8
4.	Stock Brokers	62	12.4
5.	Magazines meant for capital market	112	22.4
6.	Consultant and Financial Advisors	123	24.6
	Total	500	100.0

Source: Computed from Primary data

Table 3 clearly shows that financial advisors and magazines meant for capital market are play a vital role in choosing commodity trading option. 24.6 per cent of the respondents prefer consultant and financial advisors views in selecting commodity market. 22.4 per cent of the investor selects magazines meant for capital market the influencing factor. Television plays a high role in inducing the investors to enter into the market. 12.8 percent of the respondents are takes investment advice from friends and relatives followed by 12.4 per cent of the respondents takes it from stock brokers, 10.6 per cent of the investors obtain the information about the commodity through newspapers. So the frequency distribution analysis revealed that a major percentage of the investors are getting the information through consultant and financial advisors and magazines meant for capital market.

### **Mostly Considered Factors**

The first step to successful investing is figuring out investment goals and risk tolerance, either on own or with the help of a financial professional. But if they get the facts about investments and follow through with an intelligent plan, investors should be able to gain financial security over the years and enjoy the benefits of managing your money. Before investing, investor should first consider many factors that will determine when, where, and how to invest. Growth of capital is most closely associated with the purchase of common stock, particularly growth securities, which offer low yields but considerable opportunity for increase in value. The following table 4 presents the frequency distribution of various factors considered before investment.

**Table 4 Respondent Mostly Considered while Investing in Commodity Market**

Sl. No	Mostly Considered	No. of Respondents	Percentage
1.	Price	138	27.6
2.	Demand and supply	94	18.8
3.	Return	162	32.4
4.	Risk	106	21.2
	Total	500	100.0

Source: Computed from Primary data

From the above states that 21.2 per cent of the investors consider the market risk while investing in commodity market. 27 per cent of the participants feel that price is the most powerful one. Demand and supply takes a small role (only 18.8 %) and Return has much considered (32.4%) while invest in commodity market.

#### **Period of Trading in Commodity Market**

The behaviour of the investor regarding investment can be easily analyzed through the number of years of dealing with markets. In fact, the experience makes a man perfect by dealing in the commodity markets so that the investor may come to know the changes in securities markets. In this study four classifications have been considered namely less than 1 years, 1 –2 years, 3-5 years and above 5 years. The following frequency distribution Table 5 expresses the distribution of the samples according to the number of years dealing with commodity markets.

**Table 5 Period of Trading in Commodity Market**

Sl.No	Period of Trading	No. of Respondents	Percentage
1.	Less than 1 Year	48	9.6
2.	1-2years	184	36.8
3.	3-5 years	181	36.2
4.	Above 5 years	87	17.4
	Total	500	100.0

Source: Computed from Primary data

From the above table it is revealed that a maximum of 36.8 per cent of investors are dealing 1-2 years of experience in the commodity market followed by 36.2 per cent of investors are having the experience in this market for 3 to 5 years, 17.4 per cent of the investors have been dealing for the period of more than 5 years but 9.6 per cent of the respondent are having the experience less than one year of experience with commodity market. So the percentage analysis revealed that most of the investors are having the experience in the commodity market from 1- 5 years which shows that young investors and educated person are now entering into the commodity markets.

**Respondents Characterizes Based on Most Trading Activity**

The commodities market brokers will intermediate, facilitating hedgers and speculators. In this market three broad categories of market participants apart from brokers and the exchange administration. Investors have been classified into three types based on their nature as hedging, speculation and arbitrage. The following frequency distribution Table 6 expresses the distribution of the samples according to characterizes.

**Table 6 Respondents Characterizes Based on Most Trading Activity**

Sl.No	Characterizes	No. of Respondents	Percentage
1.	Hedging	94	18.8
2.	Speculation	227	45.4
3.	Arbitrage	121	24.2
4.	Others	58	11.6
	Total	500	100.0

Source: Computed from Primary data

From the table 6 it is clear that Out of 500 sample investors, 18.8% (94) are hedging investors and 45.4% (227) are speculation character and 24.2 % (121) are having arbitrage character and 11.6% (58) are others characterised investors. Hence, it is concluded that most of the investors having speculation character when trading in the commodity market.

**Types of Commodities Preferred**

Different types of commodity are available to trade in commodity market, the researcher interest is to know what types commodities are mostly prepared by investors for trading in commodity market, enquired the respondents and the results are presented in Table 7.

**Table 7 Types of Commodities Preferred by Respondents for Trading**

Sl.No	Margins Charged	No. of Respondents	Percentage
1.	Agro products	31	6.2
2.	Base metals (Copper, Lead, Aluminum, Nickel, Zink)	164	32.8
3.	Precious metals/ Bullions (Gold, Silver)	117	23.4
4.	Energy products (Crude oil)	36	7.2
5.	Ferrous metals (Iron, Steel)	44	8.8
6.	Mixed	108	21.6
	Total	500	100.0

Source: Computed from Primary data

From the above table we can know that 6.2 per cent of the respondents prefer agro products, 32.8 per cent of the respondents prefer base metals, followed by 23.4 per cent of the respondents prefer precious metals, 7.2 per cent of the respondents prefer energy products, 8.8 per cent of the respondents prefer ferrous metals and 21.6 per cent of the respondents

prefer different products in mixed form. Hence, it is concluded that most of the investors preferred and base and precious metals when trading in the commodity market.

**Respondents Opinion about Risk in Commodity Market**

The researcher interest is to know the opinion about risk in commodity markets, enquired the respondents and the results are presented in Table 8.

**Table 8 Respondents Opinion about Risk in Commodity Market**

Sl.No	Opinion about Risk	No. of Respondents	Percentage
1.	Variation in return	94	18.8
2.	Possibility of suffering loss	265	53.0
3.	Factor involving uncertainty	51	10.2
4.	Can be predicted with information	90	18.0
	Total	500	100.0

Source: Computed from Primary data

From the above table 18.8 per cent of the respondents said that variation in return is one of the risk in commodity market, 53 per cent of the respondents agreed that there is more possibility of suffering loss in this market. 10.2 per cent of the respondents feel uncertainty involving in this market is one of the risk factor and 18 per cent of the respondents said that risk can be predicted with information. So, it is concluded that most of the investors think about there is possibility of suffering loss when investment or trading in commodity market.

**Respondents Choices Appealing Level of Risk / Return from Investment in Commodity Market**

The researcher interest is to know the opinion about choices appealing level of risk and return from investment in commodity markets, enquired the respondents and the results are presented in Table 9.

**Table 9 Respondents Choices Appealing Level of Risk / Return from Investment in Commodity Market**

Sl. No	Choices Level of Risk / Return	No. of Respondents	Percentage
1.	High Risk, High Return	225	45.0
2.	Medium Risk, Medium Return	238	47.6
3.	Low Risk, Low Return	37	7.4
	Total	500	100.0

Source: Computed from Primary data

From the table 9 it is clear that 45 per cent of the respondents always want to high risk, high return. Keeping the future in mind customers tend to invest in commodities 47.6 per cent of the respondents ready to have medium risk and medium return and other 7.4 per cent of the respondents belongs to low risk, low return categories they feels as rather than investing in



high risk, they ready to face low risk. It is concluded from the analysis investors ready to take medium and high risk to invest or trade in this market.

**Respondents’ Investment Decision Mostly based on Possible Losses or Gains**

The researcher likes to know on what basis the investors take investment decisions, inquired the respondents and the results are presented in Table 10.

**Table 10 Respondents’ Investment Decision Mostly based on Possible Losses or Gains**

Sl.No	Investment Decision Based on	No. of Respondents	Percentage
1.	Always the possible losses	96	19.2
2.	Usually the possible losses	189	37.8
3.	Usually the possible gains	139	27.8
4.	Always the possible gains	76	15.2
	Total	500	100.0

Source: Computed from Primary data

From the table 10 it is clear that 19.2 per cent of the respondents take decision about investment based on always possible losses, 37.8 per cent of the respondents take decision based on usually the possible losses. Another 27.8 and 15.2 per cent of the respondents’ investment decision are purely based on usual and always the possible gains respectively. It is concluded from the above frequency analysis, most of the investors take investment decisions is based on possible gains.

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