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## *Trading Method of Individual Equity Investors*

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*Abstract: The Indian capital market is slowly and steadily increasing in its size and there is a marked presence of individual investors who want to park their surplus income in the stock market with a hope to enjoy better returns. The advent of online trading has resulted in the expansion of the reach of the stock markets throughout India. The increased volumes of business in the stock exchanges and the daily variations in prices have attracted more and more people towards the stock market. Shares provide an exciting opportunity for making big money. There are different methods through which trading in a stock market happens. Delivery-based, intra-day, futures and options are such methods. What are the trading methods popularly employed by investors? How cleverly the investors avoid such losses? What are the tactics that they deploy to mitigate any possible loss? What is the success rate of each of the trading methods? In order to find out answers to questions raised above, the present study has been taken up. The data required for the study was collected through a structured questionnaire. Questionnaires were distributed to forty broker offices in the Coimbatore District for data collection. The statistical tools used to analyze the data include i) Chi-square Test ii) Simple percentage and iii) Friedman Rank Analysis. The study also reveals that those investors who make short to medium term are able to get better returns than the day traders and speculators. Further, the investors need to comprehend the entire market situation on their own and make decisions with all the sources of information and technology available to them in modern day trading, and then weigh the risk involved in different methods of trading. This would eventually help the investors avoid major losses and gain better return for their equity trading.*

*Keywords: Capital Market, Individual equity investors, Stock exchange, delivery based method, intra-day method, futures and options and Success rate.*

### I. INTRODUCTION

The Indian capital market is slowly and steadily increasing in its size and there is a marked presence of individual investors who want to park their surplus income in the stock market with a hope to enjoy better returns. The Indian stock market has gained a new life in the post liberalization era. It has experienced a structural change with the setting up of SEBI (Securities and Exchange Board of India), opening up to the foreign investors, establishment of the NSE (National Stock Exchange), initiation of the screen-based trading system, dematerialization of securities, introduction of derivatives and the like. The activities of the market have increased in all respects. Market capitalization has increased spectacularly. Number of listed companies has also gone up. But perhaps the most prominent and amazing phenomena of all are the movements of secondary market share prices which are reflected in the upward trend of the major share price indices in the country.

Shares provide an exciting opportunity for making big money. That is the reason why they have become immensely popular with the Indian public, as a form of investment. Although, India is a vast country, its stock market is relatively small compared to the US and the UK and other advanced markets of the world. However, during the last few years, the Indian stock

market is amongst the most interest -generating market places in the world. Investing population wise, it ranks third in the world next only to United States and Japan. India is one of the largest markets in the world in terms of market capitalization (Rudrap and Mahaprtra, 2011).

More and more people in India, especially the young ones, are turning towards stocks for investment. However, statistics says that out of its massive population, only less than 10 per cent is involved in any kind of investment. The Capital market investment population in India is less than two crore. It seems more and more literacy is needed in this avenue of investment (Deepshikha Sikarwar, 2012).

## II. REVIEW OF LITERATURE

A wide number of investigations have been made by researchers to identify the factors determining trading method of individual equity investors.

**Lewellen Wilbur (1977)**, in his study, "Patterns of Investment Strategy and Behavior among Individual Investors" ascertained the portfolio decision process of individual equity investors. The results found that age had a strong influence on the portfolio goals of the investors. Older investors were interested in long-term capital gains and young investors desired for short-term capital gains. Age and risk-taking propensities were found to be inversely related. Women investors were found to be depending on brokers than men.

**Hersh Shefrin (2001)** conducted a survey entitled "Do Investors Expect Higher Returns from Safer Stocks than from Riskier Stocks?" He proposed that even though investors might state that in principle, risk and expected return were positively related in practice they formed judgments in which the two were negatively related i.e. respondents appeared to expect that riskier stock would produce lower returns than safer stocks.

**Troy Strader and Sridhar Ram Swami (2004)** conducted a study on "Investors' Perceptions on Traditional and Online Channels". The main objective of the study was to examine individual perceptions of the two channels. The ten variables included were lower cost transactions, increased rate of return, improved management of risk level, easier to execute transactions, convenience, control, financial education, ability to achieve financial goals, access to information and trustworthiness. Most of the respondents considered on-line better as compared to traditional channel because of lower cost transactions, ease of conducting transactions, convenience for control and greater return.

**Min-Hsien Chiang, Chiang- Mann Huang, Tsai-yin Lin, and Yun lin (2006)** conducted a research entitled "Intra-day Trading Styles and Day-of-the week in Stock Index Options Markets: Evidence from Emerging Markets". The main objective of the study was to examine the intra-day patterns of trading volume, volatility and spreads day-of-the week variations for stock index options traded on the Taiwan Future exchange. They found that trading volume of TAIEX options exhibited a U-shaped pattern. Regarding the day-of-the week effect, they found that the returns at Monday opening for TAIEX calls were lower and returns at the end of the trading day were higher.

**Abhijeet Chandra (2008)** conducted a study on "Individual Investors' Trading Behavior and Competence Effect". The results of the study indicated that age, education and income were found to be the most influencing variables of the individual investors' competence in the stock market activities and trading behavior.

**Ankem Lakshmi Pradeep (2008)** conducted a research entitled, "A Study on Investor's Perception towards Online Trading". This study revealed that out of every 100 investors only 28 traded online. Indian investors were more conservative, they changed easily and Indian traditional traders chose brokers for trading whereas net traders were more comfortable with online trading for its transparency and complete control of the terminal.

### III. STATEMENT OF THE PROBLEM

There are different methods through which trading in a stock market happens. Delivery-based, intra-day, futures and options are such methods. Rowland Mary (1986) points out that trading through options is popular among investors. Ash Narayan Sah (2006) shows that future trading is moving towards satisfying the speculative desires of speculation rather than hedging price risk. Sandeep Srivastava, Surendra Yadar, and Jain (2008) have revealed that derivative securities have definitely penetrated into the Indian stock market and investors are using these securities for different purposes namely risk management, profit, enhancement, speculation, and arbitrage. What are the trading methods popularly employed by investors? What are the reasons with which the sample investors prefer such methods? How cleverly the investors avoid such losses? What are the tactics that they deploy to mitigate any possible loss? What is the success rate of each of the trading methods?

### IV. OBJECTIVES

In order to find out answers to questions raised above, the present study has been taken up. Accordingly, the objectives framed are

1. To identify the reasons for choosing different methods of share trading.
2. To ascertain the investor tactics before loss under various methods of share trading.
3. To know the success rate under different methods of share trading.

### V. SAMPLING

Six hundred investors were chosen by convenience sampling method. Questionnaires were distributed to forty broker offices in the Coimbatore District; fifteen questionnaires were distributed to the equity trading investors in each of the broker office. The responses were collected from five hundred and sixty seven equity trading investors. Thirty-three equity-trading investors failed to respond and sixty-seven equity-trading investors provided insufficient data and hence five hundred questionnaires were finally used for the study.

### VI. FRAME WORK OF ANALYSIS

Data collected have been analyzed making use of different statistical tools. The tools used include i) Simple Percentage ii) Chi-square method and iii) Friedman's Rank Correlation Test.

### VII. SIGNIFICANCE OF THE STUDY

The findings of the study will be more helpful to Securities and Exchange Board of India (SEBI), brokers, and investors. The study will be useful to SEBI to monitor the stock exchanges as well as the brokers in order to protect the investors from any irregularities.

The results of the present study will highly help the brokers to fine-tune their interaction sessions for the sole benefit of the innocent investing public.

The study also helps the government to frame policies on trading of shares using investor-friendly technology to reduce the investors' burden in share trading. The findings point out that the investors' success rate in various methods of trading depends upon the investors' knowledge and the investors' ability to tackle the different situations in which they may incur loss. This information will enable the investors to still enhance their level of understanding of the stock market to reap safe returns.

### VIII. LIMITATIONS

The study is confined to Coimbatore District in Tamil Nadu alone. Therefore, due care has to be exercised while generalizing the results. All the limitations applicable to primary data apply to this study also.

**IX. SOCIO-ECONOMIC PROFILE**

In order to know the Socio-economic status of the sample of the investors, simple percentage method has been followed. The trading method of investors may be influenced by the socio economic factors like area of residence, age, gender, educational qualification, monthly income and Occupation. Hence, an attempt has been made to make a complete profile of the sample investors.

Table -1.1 SOCIO- ECONOMIC PROFILE

Factors	No. of Investors	Factors	No. of Investors
<b>Area of Residence</b>		<b>Age</b>	
Urban	221(44.20%)	Up to 30	89(17.80%)
Semi-urban	229(45.80%)	31 to 55	334(66.80%)
Rural	50(10.00%)	Above 55	77(15.40%)
<b>Gender</b>		<b>Occupation</b>	
Male	423(84.60%)	Business	156(31.20%)
Female	77(15.40%)	Agriculture	47(9.40%)
<b>Educational Qualifications</b>		Professional	47(9.40%)
Up to H.Sc	75(15.00%)	Pvt .Employee	98(19.60%)
Under Graduate	195(39.00%)	Govt. Employee	38(7.60%)
Post Graduate	155(31.00%)	House wife	37(7.40%)
Professional	75(15.00%)	Retired	63(12.60%)
<b>Monthly Income</b>		Student	14(2.80%)
Up to Rs. 10000	122(24.40%)		
Rs.10001- Rs. 20000	170(34.00%)		
Above Rs. 20000	208(41.60%)		

Out of the 500 investors, 229(44.50%) investors from semi-urban, 423(84.60%) male investors, 334(66.80) investors belong to the age group of 31 to 55 years, 195(39.00%) investors are highly educated with Under Graduate, 208(41.60%) investors monthly income above Rs.20000 and 156(31.20%) investors are doing business.

**X. METHOD OF SHARE TRADING FINDINGS**

In general, there are four types of trading in equity shares. They are a) Delivery-based method of trading b) Intra-day method of trading c) Futures and d) Options. First type of traders do trading just for the sake of trading, In short, no seriousness towards the activity is found among such type of investors. Second type of traders is serious traders who take interest in daily trading activities and are professional traders. Intra-day trading is typically completed within a day, which means one has to sell the stocks purchased on that day itself before closing of the exchange. Even, if one does not sell the stocks by himself, they will automatically square off before the closing of the exchange. In case of delivery-based investment or long-term investment, one can sell the stocks as and when he wishes to sell or buy them. Third and fourth types of traders' trade in the form of derivatives.i.e futures and options.

The investors preference for various methods of trading are stated in Table 1.2

Table 1.2 Method of Share Trading

Method of Trading	Always	Sometimes
Delivery-based Method	332 (66.40%)	168 (33.60%)
Intra-day Method	98 (25.30%)	290 (74.70%)
Futures	47 (13.60%)	298 (86.40%)
Call / Put Option	24 (10.40%)	206 (89.60%)

Table 1.2 shows that among the investors, three hundred and thirty two (66.40%) of the investors always prefer to use delivery-based method of trading and merely twenty-four (10.40%) of the investors use the options method.

From this, it is inferred that most of the investors use delivery-based method of trading.

### i) Reasons for using delivery-based method of trading

Table 1.3 shows the reasons for choosing delivery-based method of trading by the investors.

Table 1.3 Reasons for Choosing Delivery-based Method of Trading

Reasons	Strongly Agree	Agree	Disagree	Friedman Rank
More time available for taking decisions	266 (53.2%)	158 (31.6%)	76 (15.2%)	1
Tension free trading	161 (32.2%)	163 (32.6%)	176 (35.2%)	2
Risk of loss reduced	163 (32.6%)	175 (35.0%)	162 (32.4%)	3
Right to get dividends, bonus shares	131 (26.2%)	135 (27.0%)	234 (46.8%)	4
Maximum profit	70 (14.0%)	109 (21.8%)	321 (64.2%)	5

d.f. 4 ; Calculated  $\chi^2$  value : 317.094

Significant at five per cent level; 9.487; Significant at one per cent level; 13.276

Friedman Rank analysis has been used to ascertain the priority of various reasons for trading in delivery-based method. The primary reason for the investor to trade in delivery-based method is the availability of more time for them to take the decisions in trading. Finally, they can have maximum profit in this method. As the calculated Chi-square value is greater than the table value at one per cent level, there exists a significant difference in the various reasons for trading in delivery-based method.

### ii) Reasons for Trading in Intra-Day Method of Trading

Table 1.4 reveals the reason for choosing intra-day method of trading by the investors.

Table 1.4 Reasons for Choosing Intra-day Method of trading

Reasons	Strongly Agree	Agree	Disagree	Friedman Rank
Daily Earnings	162 (41.75%)	137 (35.31%)	89 (22.94%)	1
High Liquidity and Volatility	136 (35.05%)	146 (37.63%)	106 (27.32%)	2
Trade with only margin	153 (39.43%)	101 (26.03%)	134 (34.54%)	3
Quick Profit	119 (30.67%)	120 (30.93%)	149 (38.40%)	4
Low Brokerage Commission	85 (21.91%)	154 (39.69%)	149 (38.40%)	5
Elimination of Risk of holding a position	58 (14.95%)	95 (24.48%)	235 (60.57%)	6
Access to up-to-the-minute market and price information	55 (14.18%)	91 (23.45%)	242 (62.37%)	7
High Turnover	35 (9.02%)	67 (17.27%)	286 (73.71%)	8

d.f; 7 Calculated Chi-square value; 418.37

Significant at five per cent level; 14.067; Significant at one per cent level; 18.475

Friedman rank analysis has been used to identify the priority of various reasons for trading in intra-day method. The major reason for trading in intra-day method is the possibility of daily earnings finally, the possible high turnover for the investor through trading in intra-day method. As the calculated Chi-square value is greater than the table value at one per cent level, there exists a significant difference in the various reasons for trading in Intra-day method of trading.

### iii) Reasons for Trading in Futures

Table 1.5 Reasons for Choosing Futures Method of Trading

Reasons	Strongly Agree	Agree	Disagree	Friedman Rank
Investing in big lots only by paying a little margin amount	165 (47.83%)	123 (35.65%)	57 (16.52%)	1
Availability of three month contract	129 (37.39%)	132 (38.26%)	84 (24.35%)	2
Choice for short-selling	72 (20.87%)	103 (29.86%)	170 (49.28%)	3
High returns	76 (22.03%)	94 (27.25%)	175 (50.72%)	4
Chance for hedging	88 (25.51%)	75 (21.74%)	182 (52.75%)	5
Forecasting future movement possible	63 (18.26%)	95 (27.54%)	187 (54.20%)	6
Low brokerage	58 (16.81%)	95 (27.54%)	192 (55.65%)	7

d.f: 6; Calculated Chi-square value; 246.77

Significant at five per cent level; 12.591; Significant at one per cent level; 16.811

Friedman rank analysis has been used to identify the priority of various reasons for trading in futures method. The primary reason for trading in futures method is the investment in big lots requires only a payment of margin amount in holding bulk shares instead of paying the entire amount of shares. Finally, low brokerage commission is involved in this method of trading. As the calculated Chi-square value is greater than the table value at one per cent level, there exists a significant difference in the various reasons for trading in delivery-based method.

### iv) Reasons for Trading in Options

Table 1.6 Reasons for Choosing Options Method of Trading

Reasons	Strongly Agree	Agree	Disagree	Friedman Rank
Low investment	123 (53.48%)	73 (31.74%)	34 (14.78%)	1
Loss to the extent of premium only	108 (46.96%)	85 (36.96%)	37 (16.09%)	2
High risk to reward ratio	73 (31.74%)	67 (29.13%)	90 (39.13%)	3
Gives the buyer the right, but not the obligation, to execute the contract	66 (28.70%)	62 (26.96%)	102 (44.35%)	4
Profit unlimited but loss limited in buy options	61 (26.52%)	68 (29.57%)	101 (43.91%)	5
Profit limited but loss unlimited in sell options	39 (16.96%)	70 (30.43%)	121 (52.61%)	6

d.f: 5; Calculated Chi-square value; 156.85

Significant at five per cent level; 11.070; Significant at one per cent level; 15.0862

Friedman Rank Analysis has been used to identify the priority of various reasons for trading in Options method. The main reason for choosing this method of trading is the low investment i.e. the investors need to pay only the premium amount and not to pay the entire share value to trade in this method and finally in sell options, the loss is unlimited, and the profit is limited for the investors to trade in options method. As the calculated Chi-square value is greater than the table value at one per cent level, there exists a significant difference in the various reasons for trading in delivery-based method.

#### XI. INVESTOR TACTICS BEFORE LOSS UNDER VARIOUS METHOD OF SHARE TRADING

When there is likely to be a loss investors tend to try various tactics of holding their shares under the different methods – i) Delivery-based method ii) Intra-day method iii) Futures and iv) Options.

##### i) Investor Tactics before Loss under Delivery-based Method of Trading

When the share price falls, an investor reacts in several ways. They try to sell the shares and re-enter when the market recovers or buy shares for making an average. Some investors hold position till the market recovers again. The response of an investor to a fall in the share price is presented in Table 1.7

Table 1.7 Investor Tactics before Loss under Delivery-based Method of Trading

Particulars	Always	Occasionally	Never
Hold position till the market recovers	304 (60.80%)	119 (23.80%)	77 (15.40%)
Sell the shares	64 (12.80%)	98 (19.60%)	338 (67.60%)
Buy shares for making average	64 (12.80%)	177 (35.40%)	259 (51.80%)
Sell and re-enter when the market recovers	93 (18.60%)	181 (36.20%)	226 (45.20%)

From the Table 1.7 it is inferred that when the share price falls, 304 (60.80%) investors always prefer to hold their shares until the market recovers and 338 (67.60%) investors never prefer to sell their shares even when the share price comes down. They normally prefer to hold on to their shares.

##### ii) Investor Tactics before Loss under Intra-day Method of Trading

Intra-day trading, also known as Day Trading, is the system where investors takes a position on a stock and release that position before the end of that day's trading session and making a profit in that buy-sell or sell-buy exercise, all in one day. When an investor incurs loss while trading in intra-day method, he stops trading or switches over to Delivery-based trading or continue trading till recovery of loss. The action taken by an investor before he incurs loss while trading in intra-day method is presented in the Table below 1.8

Table 1.8 Investor Tactics before Loss under Intra-day Method

Investor Reaction	Number of Investors	Percentage
Stop trading	134	34.50
Switch over to delivery-based Trading	164	42.30
Continue trading till recovery of loss	90	23.20
<b>Total</b>	<b>500</b>	<b>100.0</b>

From Table 1.8 it can be inferred that most of the investors switch over to delivery-based method of trading at a time when they are likely to incur loss in intra-day method of trading.

##### iii) Investor Tactics before Loss under Futures Method of Trading

While incurring loss in futures method of trading, an investor may enter next month contract on the expiry date of the contract and buy the shares of the same company or of other companies. Some investors may enter next month contract before the expiry date and buy the shares of the same company or other company's shares. If the investors do not wish to continue

investing in shares, they exit the market. Table 1.8 shows the investor's choice of decision before incurring loss in current month contract.

Table 1.9 Investor Tactics before Loss under Futures Method of Trading

Investor Reaction	Yes	No
Enter next month contract on the expiry date of contract	114 (22.80%)	386 (77.20%)
Enter next month contract before the expiry date	133 (26.60%)	367 (73.40%)
Exit the Market	94 (18.80%)	406 (81.20%)

From this Table 1.9 it is inferred that 133 (26.60%) investors who have chances of loss in their current month contract in future method of trading enter the next month contract before the expiry date. while 406 (81.20%) investors do stay on the market, looking for more speculative options.

#### iv) Investor tactics before loss under Options method of Trading

When an investor comes to the close of option, he may either sell at the day of the expiry or sell on achieving the target price. Sometimes, he may leave it for the stock exchange exercise. The way of closing the option at the time of expiry is presented in the Table 1.10

Table 1.10 Investor Tactics before Loss under Options Method

Particulars	Yes	No
Sell at the day of expiry	66 (13.20%)	434 (86.80%)
Sell on achieving the target profit	142 (28.40%)	358 (71.60%)
Leave for the stock exchange exercise	26 (5.20%)	474 (94.80%)

It is seen from the table, of the three options, second one is preferred widely. However, it may be noted that, overall, investors who do not opt for the three methods outnumber those who go in for such methods.

## XII. SUCCESS RATE UNDER VARIOUS METHODS OF SHARE TRADING

Stock market is a volatile place and while some punters go home happily with profits, there are others whose expectations are not met and they go home empty handed. Self control is more essential at the time of trading. Table 1.11 shows the investors' success rate in various method of trading.

Table 1.11 Method of Share Trading and Success Rate

Method of Trading	Success Rate		
	Low	Moderate	High
Delivery-based Method	116 (23.20%)	205 (41.00%)	179 (35.80%)
Intra-day Method	132 (34.00%)	125 (32.20%)	131 (33.80%)
Futures	84 (24.30%)	203 (58.80%)	58 (16.80%)
Call/Put Options	62 (27.00%)	108 (47.00%)	60 (26.00%)

From Table 1.11 it is inferred that delivery-based method of trading gives high success rate whereas intra-day method of trading results in low success rate. Balaji, KumarBhasker (2002) suggested that Intra-day traders often become "addicted" to the TV screen or the live trading many websites have now flourished in India where in each site is providing tickets and every

minute updates people just keep sitting for hours getting in and out of many positions within a day. This eventually leads to losses. One needs to be professional devoting a full time effort in to such a project.

Of the various methods of trading, high rate of success is achieved mostly by the investors who trade in delivery-based method of trading. Since, in delivery-based method, the investors have more freedom and flexibility to trade as per their desired target. They are not bound by any contract or time bound trading as in other methods of trading. Investors who trade in intra-day method normally get a low success rate, as it involves high risk. This creates a lot of stress in them and they are bound to have low success rate and incur a heavy loss in their trading.

### **XIII. SUGGESTIONS**

#### **i) Suggestions to SEBI**

**SEBI** has a greater role to play in boosting the confidence of the investors and help them through ensuring transparency and efficiency in share trading. India is still a developing country and most of its population lives in semi-urban and rural areas. Hence, regulatory bodies have to promote efficient way of imparting the necessary knowledge and skills to the investors of equity trading through various innovative and indigenous methods.

#### **ii) Suggestions to Brokers**

Brokers with their expertise may offer the investors all the necessary and complete details and the risks involved in various methods of trading at the time of entering into trade. Thus, they shall equip the investors with full knowledge and help them to take right and appropriate decisions while trading

Brokers have to update the investors every day on the current position of the market and pass on the news of the latest trend of various companies for equity trading either over phone or through short message services to the investors. It will be more helpful to the investor for taking correct decisions while trading.

#### **iii) Suggestions to Investors**

Finally following are some points, which are recommended to be followed to become professional traders.

- Investors need to have dedication and sincerity towards daily activities.
- Investors to do their daily homework before they start trading.
- They should update themselves by watching financial news channels related to Indian share market.
- They should follow the share market related websites, where they can get lot of information.

Patience and confidence are the two important factors required for successful trading.

### **XIV. CONCLUSIONS**

The above study shows the various reasons for the investors to prefer their method of trading. The main reason for choosing the delivery-based method of trading is the availability of time. The investors taking into consideration the prospectus of daily earnings go for intra-day method. The investors prefer for futures method, as it involves the payment of the margin amount only. But then, they will be able to get the entire benefit of the full investment value. Likewise, the investors choose the option method due to its low investment i.e., the investors have to pay the premium only to trade in this method.

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