



TRADING PRACTICES IN EQUITY MARKET AMONG RETAIL INVESTORS WITH SPECIFIC REFERENCE TO CHENNAI CITY



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ABSTRACT

The Topic “Trading practices in Equity Market among Retail Traders” studies about the various trading practices and the investment pattern of the retail investors. Fundamental analysis and Technical analysis are the investment strategies which are followed by the investors while investing in equity market. The investors prefer fundamental analysis where as traders prefer technical analysis.

The traders use the leveraged strategies such as short selling and margin buying for trading the stocks that does not owned by him/her. Thus retail traders trade in equity market, which is said to be volatile and risky, to safeguard themselves against the various risk in the market and as well make money follow appropriate strategies.

The research study was confined to the geographical limits of Chennai city only. The focus of this study was on trading practices in equity market among Retail Investors and did not extend to the study of trading practices of institutional investors.

The research was undertaken exclusively for the retail investors. This study reveals the various trading patterns and techniques followed by the retail investors. This report helps the stock broker to identify the expectations of the retail investors. This helps the stock brokers to understand their customers better and serve better.

KEY WORDS: BSE, NSE, CEM, Retail Traders, Stock Investors, Fund Traders, Stock Exchange, Securities.

INTRODUCTION

“Trading Practices In Equity Market Among Retail Traders”

The Topic “Trading practices in Equity Market among Retail Traders” studies about the various trading practices and the investment pattern of the retail investors. Fundamental analysis and Technical analysis are the investment strategies which are followed by the investors while investing in equity market. The investors prefer fundamental analysis where as traders prefer technical analysis.

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that does not owned by him/her. Thus retail traders trade in equity market, which is said to be volatile and risky, to safeguard themselves against the various risk in the market and as well make money follow appropriate strategies.

“Be greedy when others are fearful, but be very fearful when others are greedy.” - Warren Buffett

Participants in the stock market range from small individual stock investors to large hedge fund traders, who can be based anywhere. Their orders usually end up with a professional at a stock exchange, who executes the order.



Some exchanges are physical locations where transactions are carried out on a trading floor, by a method known as open outcry. This type of auction is used in stock exchanges and commodity exchanges where traders may enter “verbal” bids and offers simultaneously. The other type of exchange is a virtual kind, composed of a network of computers where trades are made electronically via traders.

The purpose of a stock exchange is to facilitate the exchange of securities between buyers and sellers, thus providing a marketplace (virtual or real). The exchanges provide real-time trading information on the listed securities, facilitating price discovery. Orders enter by way of exchange members and flow down to a specialist, who goes to the floor trading post to trade stock. The specialist’s job is to match buy and sell orders using open outcry. If a spread exists, no trade immediately takes place—in this case the specialist should use his/her own resources (money or stock) to close the difference after his/her judged time. Once a trade has been made the details are reported on the “tape” and sent back to the brokerage firm, which then notifies the investor who placed the order. Although there is a significant amount of human contact in this process, computers play an important role, especially for so-called “program trading”.

A stock trader or a stock investor is an individual or firm who buys and sells stocks or bonds (and possibly other financial assets) in the financial markets.

STATEMENT OF PROBLEM

Traditionally stock trading is done through stock brokers, personally or through telephones. As number of people trading in stock market increase enormously in last few years, some issues like location constrains, busy phone lines, miss communication etc start growing in stock broker offices. Information technology (Stock Market Software) helps stock brokers in solving these problems with Online Stock Trading.

Online Stock Market Trading is an internet based stock trading facility. Investor can trade shares through a website without any manual intervention from Stock Broker.

In this case these Online Stock Trading companies are stock broker for the investor. They are registered with one or more Stock Exchanges. Mostly Online Trading Websites in India trades in BSE and NSE.

SCOPE OF THE STUDY

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of trading practices of institutional investors.

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OBJECTIVES OF STUDY

1. To identify the most preferred investment option, and investors’ experience in equity market.
2. To examine the retail investors’ holding period of shares and opinion about the best performing sectors in retail sectors.

RESEARCH METHODOLOGY

The type of research design undertaken is **Descriptive Research**. Descriptive research includes surveys and fact-findings enquiries of different kinds. The major purpose of descriptive research is description of state of affairs, as it exists at present. In social science and business research we quite often use the term exposit fact to research for descriptive research studies. Once the topic was finalized, it was decided that a questionnaire to be prepared and a survey to be conducted. A lot of study was made on the topic before the questionnaire was framed. Then the questionnaire was distributed to around 10 respondents and a pilot study was conducted. Based on the respondents certain changes were made. Finally a structured questionnaire was made. The primary data are those, which are collected afresh and for the first time, and thus happen to be original in character. The data collected were all based on their habits and were factual.

Based on the database given by the companies in Chennai city, every respondent was met personally to get the questionnaire filled. Chennai based financial companies were visited to conduct the survey. Once the survey got over, the filled in questionnaire were sorted out and summarized. Appropriate statistical tools were used to analyze the filled in questionnaires. Statistical Package for Social Science (SPSS) software was used for analysis.

The secondary data on the other hand are those which, have already been collected by any someone else and which have already been passed through the statistical process. The secondary data has been taken from the books, web sites, journals and magazines.

A sampling plan is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting

items for the sample sampling size for the study is 110 respondents. This sample size represents the population of retail investors in general of Chennai city.

Sample size was arrived at 110 after discussion with Company guide and also taking consideration of the time constraint.

**DATA ANALYSIS AND DISCUSSION
TEST 1**

FRIEDMAN TEST: PREFERENCE OF INVESTMENT OPTIONS AMONG RETAIL INVESTORS

Hypotheses:-

- ▲ **H0:** There is no difference in the mean rank of the opinion about investment options.
- ▲ **H1:** There is difference in the mean rank of the opinion about investment options

Statistical Tool:-

Friedman Test is used to find out the mean rank of the opinion about the investment options.

Ranks

Test Statistics (a)

N	110
Chi-Square	189.505
df	5
Asymp. Sig.	.000

Level of Significance: 5%

INVESTMENT OPTIONS	Mean Rank
EQUITY	1.60
BANK DEPOSIT	4.24
BONDS & DEBENTURES	4.64
MUTUAL FUND	2.89
INSUARANCE	3.91
REAL ESTATE	3.73

Outcome: Ho is rejected.

Since the asymptotic significant is less than 0.05, Ho is rejected, i.e there is significant difference between the mean ranks of preference for the various investment options. Thus **H1 is accepted.**

Interpretation:-

It is inferred that Equity is the most preferred investment option by the retail investors, followed by mutual funds and real estate.

TEST 2

TWO-WAY CHI SQUARE TEST: RELATIONSHIP BETWEEN THE HOLDIND PERIOD AND THE PORTFOLIO SIZE OF THE RETAIL INVESTORS

Hypotheses:-

- ▲ **H0:** There is no significance relationship between the holding period and the portfolio size of the retail investor i.e the portfolio size does not depends upon the holding period of the shares.
- ▲ **H1:** There is significance relationship between holding period and the portfolio size of the retail investor.

Statistical Tool:-

Two-way chi square Test is used to find out relationship between holding period and the portfolio size of the retail investor.

HOLDING PERIOD * PORTFOLIO SIZE Cross tabulation

		PORTFOLIO SIZE				Total
		<1 lac	1-5 lacs	5-10 lacs	10-15 lacs	
HOLDING PERIOD	Holding for a long term(5-10yrs)	1	3	1	1	6
	Holding for a medium term(2-5yrs)	6	17	2	0	25
	Holding for a short term(less than a year)	14	35	7	1	57
	Holding for a very short period to speculate to earn quick profits	6	12	4	0	22
Total		27	67	14	2	110



Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.861(a)	9	.362
Likelihood Ratio	6.111	9	.729
Linear-by-Linear Association	.341	1	.559
N of Valid Cases	110		

Level of Significance: 5%

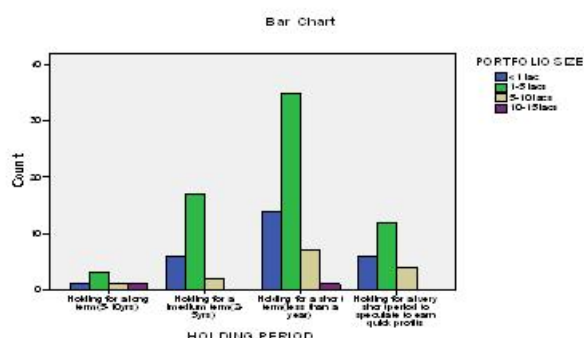
Outcome: Ho is accepted.

Since the asymptotic significant is more than 0.05, Ho is accepted, i.e there is no significant relationship between holding period and the portfolio size of the retail investor i.e the portfolio size does not depends upon the holding period of the shares. Thus H1 is rejected.

Interpretation

It is inferred that the portfolio size does not act as a factor influencing the investor’s holding period.

CHART 1 SHOWING THE RELATIONSHIP BETWEEN HOLDIND PERIOD AND THE PORTFOLIO SIZE OF THR RETAIL INVESTORS



TEST 3

ONE WAY ANOVA TEST: RELATIONSHIP BETWEEN THE AGE AND THE STOCK HOLDING PERIOD OF THE RETAIL INVESTORS

Hypotheses

H0: The age of the investors has no significant impact on the holding period..

H1: The age of the investors has significant impact on the holding period

Statistical Tool

One-way ANOVA Test is used to find out whether the age of the investors has significant impact on the holding period.

Test of Homogeneity of Variances HOLDING PERIOD

Levene Statistic	df1	df2	Sig.
1.483	4	105	.213

ANOVA HOLDING PERIOD

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.555	4	.139	.213	.931
Within Groups	68.400	105	.651		
Total	68.955	109			

Level of Significance: 5%

Outcome: Ho is accepted.

Since the asymptotic significant is more than 0.05, Ho is accepted, the age of the investor has no significant impact on the holding period. Thus H1 is rejected.

Interpretation

It is inferred that the age of the investor has no significant impact on the holding period.

TEST 4

CROSSTABS: RELATIONSHIP BETWEEN INCOME AND THE PORTFOLIO SIZE OF THE RETAIL INVESTORS

Hypotheses

- H0: The income of the investors has no significant impact on the portfolio size.
- H1: The income of the investors has significant impact on the portfolio size.

Statistical Tool

Crosstabs is used to examine the relationship between the income and the portfolio size of the investors.

PORTFOLIO SIZE * INCOME Cross tabulation

		INCOME					Total	
		Below 2 lacs	2-5 lacs	5-8 lacs	8-12 lacs	Above 12 lacs		
Portfolio Size	<1 lac	Count	16	7	3	1	0	27
		% of Total	14.5%	6.4%	2.7%	.9%	.0%	24.5%
1-5 lacs		Count	16	30	12	7	2	67
		% of Total	14.5%	27.3%	10.9%	6.4%	1.8%	60.9%
5-10 lacs		Count	0	5	2	6	1	14
		% of Total	.0%	4.5%	1.8%	5.5%	.9%	12.7%
10-15 lacs		Count	0	0	2	0	0	2
		% of Total	.0%	.0%	1.8%	.0%	.0%	1.8%
Total		Count	32	42	19	14	3	110
		% of Total	29.1%	38.2%	17.3%	12.7%	2.7%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	38.994(a)	12	.000
Likelihood Ratio	36.036	12	.000
Linear-by-Linear Association	20.232	1	.000
N of Valid Cases	110		

Level of Significance: 5%

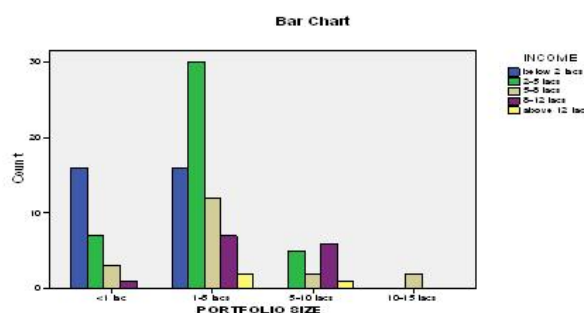
Outcome: Ho is accepted.

Since the asymptotic significant is more than 0.05, Ho is accepted, the income of the investors has no significant impact on the portfolio size. Thus H1 is rejected.

Interpretation

It is inferred that the income of the investors has no significant impact on the portfolio size. The most of the investors hold a portfolio size of 1-5 lacs, followed by less than 1 lac.

CHART 2 SHOWING THE RELATIONSHIP BETWEEN INCOME AND THE PORTFOLIO SIZE OF THE RETAIL INVESTORS



TEST 5**FRIEDMAN TEST: BEST PERFORMING SECTOR**

H0: There is no difference in the mean rank of the opinion about the various sectors.

H1: There is difference in the mean rank of the opinion about the various sectors.

Statistical Tool:

Friedman Test is used to find out the mean rank of the opinion about best performing sector

Ranks

SECTOR	Mean Rank
AUTOMOBILE SECTOR	3.99
CONSTRUCTION SECTOR	4.11
BANKING SECTOR	3.20
INFOTECH	3.15
POWER SECTOR	2.93
TELECOMM-SERVICE	3.63

Test Statistics (a)

N	110
Chi-Square	36.831
df	5
Asymp. Sig.	.000

Level of Significance: 5%

Outcome: Ho is rejected.

Since the asymptotic significant is less than 0.05, Ho is rejected, i.e there is significant difference between the mean ranks of the sector. Thus **H1 is accepted.**

Interpretation

It is inferred that Power sector is ranked as a best performing sector followed by InfoTech and Banking sector.

RECOMMENDATIONS AND CONCLUSION

The NSE may be suitable for investors who invest for long term. The investors may consider the other market segment as Mid-cap is almost saturated. The time spent for market analysis may be increased. Majority of the

respondents rely on TV Channels for market information. The investors may also surf technical websites for market information. The investors may track their stock more than once in a day as the market is highly volatile. The investors may not rely fully on the advice of the brokers. The investors may be cautious on the level of Foreign Institutional Investment as it has been ranked no.1 influential factor.

It is virtually impossible to become good at anything, whether it be sports, a career or investing, without practice and experience. Successful result requires time and patience. Investors who think they can jump right into the market and make a killing are setting themselves up for substantial losses. Investors take time to understand the market and what makes it function.

One must think for himself. He must follow his own convictions. Self trust is the foundation of successful effort. But at the same time he should be flexible. 'Pride of options has been responsible for the downfall of more men on Wall Street than any other factors said the famous expert' – Charles Dow.

The investment scheme chosen must match the investors risk profile, financial goals and time-frame. Investors must not over react when the share prices keep falling. History suggests that the longer the holding period, the less likely an investor is to receive negative returns from shares. Modern science has ensured that the housewife going to the supermarket has more goods at her command than Cleopatra or Queen Victoria ever had" – CEM Joad. Thus investors must understand the art science of investment for getting high returns.

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