Shift of Investors from Equity to Future and Options Segment of the Market

Ms. Priyanka Jain[1*], Ms. Stuti Gupta[2], Dr. Vipin Kumar[2]

[1]Department of Mathematics, Teerthanker Mahavir University, Moradabad, Uttar Pradesh, India

[2]Associate Professor, Department of Mathematics, Teerthanker Mahavir University, Moradabad

[*]Corresponding Author

ABSTRACT

Derivatives market incepted long back in India in 1800s in the OTC format. However, in the year 2000, derivatives trading and settlement began on NSE and BSE as approved by SEBI. Ever since then, derivatives trading has risen and still has the scope to reach heights. Particularly, in Futures & Options market segment, both have shown a significant boost in trading, with Options showcasing extraordinary rise in the trades. Since the beginning of the derivatives market, the options section has consistently outpaced the futures segment. This exponential increase in the contracts traded is the evidence of shift of investors into the derivatives segment. There could be many possible reasons behind this shift. Firstly, Options trading offers the maximum return for trading the same number of shares with the least amount of capital. Investors seek for options because of its dual benefits of low investment requirements and higher % returns. The latter being the by-product of the earlier. Because derivatives trade for a fraction of the underlying asset's price, you may spend less money to control more of the asset - a significant advantage. The one thing that distinguishes options from the rest of the investment avenues is one can always benefit from an options market irrespective of the scenario of the market. Whether its bullish, bearish, sideways, low or high volatile or non-directional i.e., investors can earn profit tri-directionally & this can be done by deploying various strategies in options trading. Also, the tax applicable on futures & options earning are significantly less than that of which is applied on equity. The tax applicable on futures & options is approximately is just 13% of what is applicable on equity. Options are and can be used as hedging tools. Options are used to hedge equity portfolio as well as the futures.

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