

Innovative Products and its Impact on Retail Investors’ in Secondary Market

OPEN ACCESS

Volume: 7

Special Issue: 2

Month: November

Year: 2019

P-ISSN: 2321-788X

E-ISSN: 2582-0397

Impact Factor: 3.025

Citation:

Dhannu. “Innovative Products and Its Impact on Retail Investors’ in Secondary Market.” *Shanlax International Journal of Arts, Science and Humanities*, vol. 7, no. S2, 2019, pp. 46–52.

DOI:

<https://doi.org/10.5281/zenodo.3669466>

Dhannu

Assistant Professor, Jain College

Abstract

Indian secondary market is fast-growing market in the world; there are many products introduced in Indian market for attracting the investors. This research is concentrating on structured product; structured products are a new concept emerged in secondary market, SEBI has issued more specified guidelines on these products and taken certain initiatives to educate the investors about the products and also to protect the interest of the investors. Structured products are rightly positioned for the sophisticated investor as the nuances involved are many, and investors need to give it adequate thought and analyze the details before investing, the recently issued guidelines will help the investors understand the products better in this connection this paper is focused on answering for is structure product popular among investors? If it is so, what kind of impact it made among investors? To know these, 14 statements are prepared and asked opinions from investors and analyzed the same using statistical tools such as factor, cluster, and correlation analysis.

Keywords: Structured products, Impact, Opinion.

Introduction

In simple terms, structured products are customized to go well with investors’ risk-return objectives. Structured products can be considered as fixed deposits or debt with features of derivatives. Structured products are the cheapest way to invest in equities. They give investors access to equity while protecting the capital, unlike conventional options. Structured products are listed on exchanges but are not very liquid. Listing gives the buyer the advantage related to long term capital gains. The Indian context, most people are not aware of structured products and their benefits. A structured product, also known as a market-linked investment, is a pre-packaged investment strategy based on derivatives, such as a single security, a basket of securities, options, indices, commodities, debt issuance, or foreign currencies, and to a lesser extent, swaps. Since the structured products are a new concept emerged in secondary market, SEBI has issued more specified guidelines on these products and taken certain initiatives to educate the investors about the products also to protect the interest of the investors. SEBI is making efforts to change risk perception on the structured products, but still, the investors are not clear about the structured products and their benefits.

Statement of the Problems

Investors’ attitude towards their savings has been changed from savings to investment nowadays as well as there are flinty of investment opportunities available the Indian market. Structured products are the new concept in the market where the investors need to understand the complexities of the structured products and how well they perform and how to make profits by investing in such products. Investors should know about the mechanism of structured products to make their investment decision more effective. However, this study focuses on assessing the impact of structured products on retail investors.

Objectives of the Study

- To study the relationship between the socio-economic profile and the impact of structured products
- To assess the impact of structured products on retail investors

Research Methodology Sampling Procedure

As far as the objectives of the study are concerned, the study aims to analyze and describe the socio-economic profile of the respondents’ structured products and its impact on investors. Hence, the research design applied for this study is analytical and descriptive in nature. Both primary and secondary data were used in this study. The primary data was collected from structured product investors, using a well-structured interview schedule. The sample respondents have been selected by adopting a purposive sampling method. The sample size was 120 respondents.

Data Analysis and Interpretation

Collected data is analyzed using the statistical tools namely factor analysis, cluster analysis and, correlation analysis for assessing the impact of structured product on investors’.

Factor Analysis

Factor analysis is used to identify and define the underlying dimensions (factors) in the original variables. Here 14 statements are identified to know the Impact of structured products on retail investors and the variables are stated in the form of statements to collect opinion from investors’. They were asked to give their opinion for all the 14 statements in the Likert’s five-point scale with alternate options such as highly dissatisfied, dissatisfied, neither satisfied nor dissatisfied, satisfied and highly satisfied. Initially, the correlation among these variables is calculated.

Table 1 KMO and Bartlett’s Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.735
Bartlett’s Test of Sphericity	Approx. Chi-Square	1067.889
	Df	91
	Sig.	.000

KMO and Bartlett’s Test

The value of test statistics is given above as 0.735 which means the factor analysis for the identified variables is found to be appropriate to the data. The value of KMO measure of sampling adequacy is 0.735

The significant value of Bartlett test is 0.000. Hence, there exists significant Significance Association among the variables. The measure of KMO test and value of Bartlett test indicate that the present data is useful for factor analysis.

Table 2 Grouping of Factors

Factors	Statements	Scores
Complicated Process	Structured products are not easily liquidated and hence there is no secondary market to sell	.808
	Unless the capital is held till maturity the capital protection cannot be enjoyed by investors	.804
	Structured products are quite expensive to be purchased by retail investors	.653
	Transparency of fees can be a problem with some of the structured products	.653
	Investors consider principle protection very attractive feature and hence their investment decision to invest in structured products is strongly affected by it	.613
	Investors are getting attracted to invest in structured products because of capital protection	.578
Awareness	Investors should have sufficient knowledge about structured products in order to make an investment decision	.823
	Structured products provide investors easy access to derivatives	.773
	Structured products are used as a way of portfolio diversification by high net worth investors	.772
	Structured products enable the investors to diversify their investment portfolio	.610
Capital Protection	The advantage of using structured products as capital protection is off set with various other risks	.773
	They are used as an alternative to direct investment as a measure to mitigate risk exposure of portfolio	.770
	There is growing propensity for structured products in recent years by investors	.691
	They are considered by investors as less risky investments because of their principle protection	.545

Source: Primary Data

Table 2 reveals the factor loadings (co-efficient) which indicate how much weight is assigned to each factor. Factor's with large co-efficient for the variable is closely related to that variable. Thus, the 14 variables in the data are reduced into three factor models and each factor is identified with the corresponding variables as given below.

Table 3 Impact on of Structured Products on Retail Investors with Rank and Score

Sl. NO	Statements	Score	Rank
1	Investors should have sufficient knowledge about structured products in order to make investment decision	.823	I
2	Structured products are not easily liquidated and hence there is no secondary market to sell	.808	II
3	Unless the capital is held till maturity the capital protection cannot be enjoyed by investors	.804	III

4	Structured products provide investors easy access to derivatives	.773	IV
5	The advantage of using structured products as capital protection is off set with various other risks	.773	IV
6	Structured products are used as a way of portfolio diversification by high net worth investors	.772	V
7	They are used as an alternative to direct investment as a measure to mitigate risk exposure of the portfolio	.770	VI
8	There is growing propensity for structured products in recent years by investors	.691	VII
9	Structured products are quite expensive to be purchased by retail investors	.653	VIII
10	Transparency of fees can be a problem with some of the structured products	.653	VIII
11	Investors consider principle protection very attractive feature and hence their investment decision to invest in structured products is strongly affected by it	.613	IX
12	Structured products enable the investors to diversify their investment portfolio	.610	X
13	Investors are getting attracted to invest in structured products because of capital protection	.578	XI
14	A Structured product is less risky investments, and it protects principle amount	.545	XII

Source: Primary Data

Table 3 describes the most as well as the least Impact of structured products on retail investors. Based on the scoring, “Investors should have sufficient knowledge about structured products to make investment decision” stands on 1st Rank and the statement structured product is less risky investments and it protect principle amount stands on the 14th rank.

Cluster Analysis for Impact of Structured Product

The impact of structured products on Retail Investors can be classified into three categories based on choice criteria using the cluster analysis. They are classified into three segments because the difference between the co-efficient is significant only in three cases on the hierarchical cluster. For classification of investors’ satisfaction, K- means the cluster is used.

Table 4 Final Cluster

Factors	Cluster		
	1	2	3
Complicated Process	3.34	1.86	3.95
Awareness	3.34	2.21	4.16
Portfolio Diversification	3.43	2.36	4.12
Average Score	3.37	2.14	4.08
Rank	II	III	I

Source: Primary Data

The final cluster centers’ table 4 shows the mean values for the three clusters, which reflect the attributes of each cluster. The average score of the third cluster is 4.08, with the first rank, the first cluster is 3.37 with the second rank and second cluster is 2.14 with the third rank. This means that the third cluster structured products have created a high level of impact on investors, first cluster structured products have created a medium level of impact on investors and second cluster structured products have created a low level of impact on investors

Table 5 Anova

Factors	Cluster		Error		F	Sig.
	Mean Square	Df	Mean Square	Df		
Complicated Process	16.270	2	.185	117	87.830	.000
Awareness	17.801	2	.226	117	78.835	.000
Capital protection	13.818	2	.234	117	59.087	.000

The significant value for the above three factors is 0.000. This means that the above three factors have a significant contribution on dividing investors’ into three segments namely high-level impact, medium level impact and low-level impact based on prime criteria.

Table 6 Number of Cases in each Cluster

Cluster	Respondents	Percentage	Rank
Cluster 1	46	38.33	II
Cluster 2	7	5.833	III
Cluster 3	67	55.83	I
Total	120	100	

The table 6 reveals that out of the 120 respondents, 67 (55.83%) have a high level of impact on the structured products, 46 (38.33%) have a medium level of impact on structured products, and 7 (5.83%) have a low level of impact on the structured products. It is important to note that 55.83% of the respondents have high level of impact on structured product.

Correlation Analysis

The Pearson correlation analysis is applied between Structured Products and Investors Socio-economic Profile. The details are given below

Table 7 Correlation between Structured Products and Investors Socio-Economic Profile

Sl. No	Variables	Pearson Correlation Value	Sig.	Result
1	Gender	-.040	.664	Not Significant
2	Marital Status	-.113	.795	Not Significant
3	Educational Qualification	.024	.795	Not Significant
4	Occupation	.477**	.000	Significant

5	Comfort level in investing in Structured products	.202*	.027	Significant
6	Frequency of Trading	.004	.964	Not Significant
7	Reason for Investing	-.180*	.049	Significant
8	Investment Objective	-.004	.967	Not Significant

Source: Primary data, **Significant at 5%, *Significant at 1%

It is observed from the above table that occupations, comfort level in investing in structured products are positively correlating and have a significant association with the impact on retail investment. The reason for investing and investment objective are negatively correlating and have a significant association with impact on retail investment and Gender, Marital Status, educational qualification, frequency of trading and investment objective are not correlating with impact on impact on retail investment.

Suggestions

1. As far as structured products and its impact on retail investors is concerned out of the 14 statements, the statement, namely “Investors should have sufficient knowledge about structured products to make investment decisions” has more impact among retail investors’ in the Indian market and this statement is placed first. In this connection, the regulating body should seriously view this statement and enhance their knowledge about structured products investment through the effective mode of the program. The regulating body should also consider the research finding that only 55.83% of the respondents have agreed that a structured products made an impact on their investment. [As per the Factor Analysis and Cluster Analysis]
2. The Structured product created more impact on retail investors ; the reason is due to the complicated process, the level of awareness and investment diversification, 55.83% has a high level of impact on retail investors, 38.33% has a medium level impact ,and only 5.83% has a medium level impact. The respondents have had agreed that the above-mentioned factors were leads to a high impact on retail investors. The regulating body has to give more importance for those factors which create an impact among retail investors. [As per the Factor and Cluster Analyses]

Conclusion

Structured products very new concept in the Indian market, the majority of investors have been investing without knowing the market and structured products. The regulating authority may take necessary measures to disseminate the information regarding structure products, features and operations of structured product in the Indian market as well as merits and demerits of structured product investment among the investors in general and age, marital status, occupation, investing in structured products and percentage of the amount invested in particular. Further, the regulating body should evolve a suitable investors’ education program on structure products which will help the existing investors to continue their investments.

References

1. ISMR (2000-11). “Indian Securities Market- A Review”, National Stock Exchange, Volume III to XIV.
2. Jennifer Reynolds-Moehrle (2005). “Management’s Disclosure of Hedging Activity: An Empirical Investigation of Analysts And Investors Reactions”, International Journal of Managerial Finance, Vol.1 Issue 2, pp. 108-122.

3. Koti, P. K. (2014).”Investors Preference Towards Stock Market and Other Investment Options”, Indian Journal of Research in Management, Business and Social Sciences (IJRMBSS), 2 (1).
4. Leyla enturk Ozer, AzizeErgeneli and Mehmet Baha Karan (2004). Financial Risk Perception of Investors and Finance Specialists in the Beginning of the Stabilization Period of Turkey, pp. 1-9.
5. Logeshwari K and V. Ramadevi (2009). “Investors Preferences in Commodities Market”, pp. 1-7.
6. Makbul Rahim (2001). Capital Market Development: Maldives Monetary Authority, pp. 19-23.
7. Nagaraju S. R. (2014). A Study on Investors’ Perception Towards Derivative Instruments and Markets. International Journal of Research In Commerce, Economics & Management, 4 (7).