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A STUDY ON PROBLEMS & PROSPECTS OF OPTION TRADERS IN INDIA: WITH REFERENCE TO STOCK OPTIONS TRADED IN NATIONAL STOCK EXCHANGE

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Abstract

The objective of this study is to examine the problems and possibilities encountered with the aid of Indian option traders, with a particular emphasis on inventory options that are traded on the National Stock Exchange. Option contracts are effective risk management tools that allow for the modification of a base asset at a predetermined rate within a specific timeframe.The research seeks to determine the primary troubles Indian traders have while buying and selling option contracts and investigate the possibility of option buying and selling methods lowering the top rate that traders should pay. It also seems to emphasise the importance of returns for holders and writers of alternatives in bullish, impartial, and bearish markets. The study uses a descriptive methodology and distributes a dependent questionnaire to 40 traders as a comfort pattern. The study assesses a number of variables, which include brokerage charges, option premiums, pricing problems, hazard-reward eventualities, trading frequency, timing, entry-go-out selections, and liquidity. The accrued data are analysed using statistical techniques like one-way ANOVA and hypothesis testing. The results are intended to contribute to a higher knowledge of the Indian alternative buying and selling scene by shedding light on the difficulties encountered by option traders and suggesting feasible solutions.

Keywords:*Indian Option Traders, Option Contracts, Risk Management, Option Trading Strategies, Premium Reduction, Market Returns and Descriptive Methodology*

Introduction

The subject of this paper is option contracts, which are widely employed as efficient risk management instruments. An option is a derivative instrument that grants the right to trade in an underlying asset at a predetermined price before a certain time horizon. Call and put options are two types of options contracts, with call options allowing the holder to purchase the underlying asset and put options allowing the buyer to sell it. Spread trading involves purchasing and selling multiple option contracts.Purchasing and selling several option contracts that include a combination of call and put options is known as combination trading. The current research will

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provide an outline of the issues that option traders encounter while trading options contracts and provide recommendations for reducing these issues via the use of option trading methods from the standpoint of the trader.

Statement of the Problem

Option contracts are risk control instruments with option bearers exercising the right to a premium payment from the option holder. The trader struggles to calculate the true premium, considering other factors in the paper's following sections. The study aims to identify the primary issues faced by Indian traders when trading options contracts.It also aims to investigate the possibility that an option trader can reduce the amount of premium he pays by using option trading strategies rather than just one option contract.

Review of Literature

According to research conducted by Jap Efendi, Rebecca Files, Bo Ouyang, and Edward P. Swanson, option backdating in companies increases the likelihood of forced CEO and CFO turnover compared to propensity score-matched control businesses.About 36% of the alleged companies experienced forced turnover, according to the report. CEO and CFO forced turnover rates are comparable and much higher than average. The authors further claimed that as managers from control firms are much more likely to be rehired at similar jobs, the displaced managers suffer even more from the managerial labour market. Additionally, the researchers discovered that companies that backdate CEO remuneration reorganise it to depend less on stock options. Lastly, the writers discover that the General Counsel is also affected by the increased turnover. Although boards are often thought of as being insensitive to complaints about CEO remuneration, they did react strongly to claims of option backdating and the negative publicity that went along with it (Jap Efendi, 2013).

Oliver G. Spalt found that nonexecutive workers get more stock options from riskier companies with more idiosyncratic volatility. The author examined a risk-neutral company model and an employee with prospect theory preferences, which does not explain the trend in compensation package negotiations.Probability weighting is the primary characteristic that the author found to be appealing in stock options. When calibrating the model using typical values from the empirical literature, it matches the option grants data in this research rather well. The findings provide the first proof that high-risk companies may satisfy worker requests for long-shot bets while still making a profit by offering stock options. (Spalt, Aug. 2013).

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Objectives

- To study the issues and future opportunities of Indian option traders
- To rank and contrast the issues that option traders encounter while trading in neutral, bullish, and bearish markets for both single-stock and index options.
- To evaluate the importance of returns for both option writers and holders in markets that are bullish, neutral, and bearish
- To examine the option premium as a significant financial burden for the option holder
- To ascertain if option trading methods are a useful instrument for reducing premium losses for option holders in bullish, neutral, and bearish markets
- To examine how different stock and index option trading strategies compare in terms of risk and return under favourable, neutral, and unfavourable market circumstances.

Need of the study

An essential knowledge gap on the problems experienced by traders inside the Indian option buying and selling scene is stuffed through the studies on the problems and future potentialities of Indian option traders, with a focus on inventory options traded on the National Stock Exchange. Through an examination of subjects concerning alternative contracts, risk mitigation, and buying and selling methods, the observer illuminates the intricacies of this enterprise. The study's need will become clear from its aim of providing possible answers to improve option buyers' buying and selling reviews as well as insights into the demanding situations they face. In order to make well-knowledgeable decisions and create successful techniques, this look is vital for academics and practitioners who want a higher understanding of the subtleties within the Indian option buying and selling market.

Methodology

The study is descriptive in nature. Data Collection Method: A systematic questionnaire was used to gather data for the current study. Sampling technique: The researcher used convenience sampling for the study. Sample size: There were 40 traders in the sample. Creation of the study tool: In order to gather information for "A Study on Challenges and Opportunities of Option Traders in India," a questionnaire was created. To ensure that every respondent sees the same questionnaire, all questions and forms have been standardised. To encourage cooperation and proper completion, the questionnaire is developed in a thorough manner. Annexure A contains the questionnaire that was used in this study. The quiz will cover the many issues that option traders run into while trading contracts in neutral, bearish, and bullish situations.Factors taken into account in the research: The following table lists the factors that were taken into account for the study:

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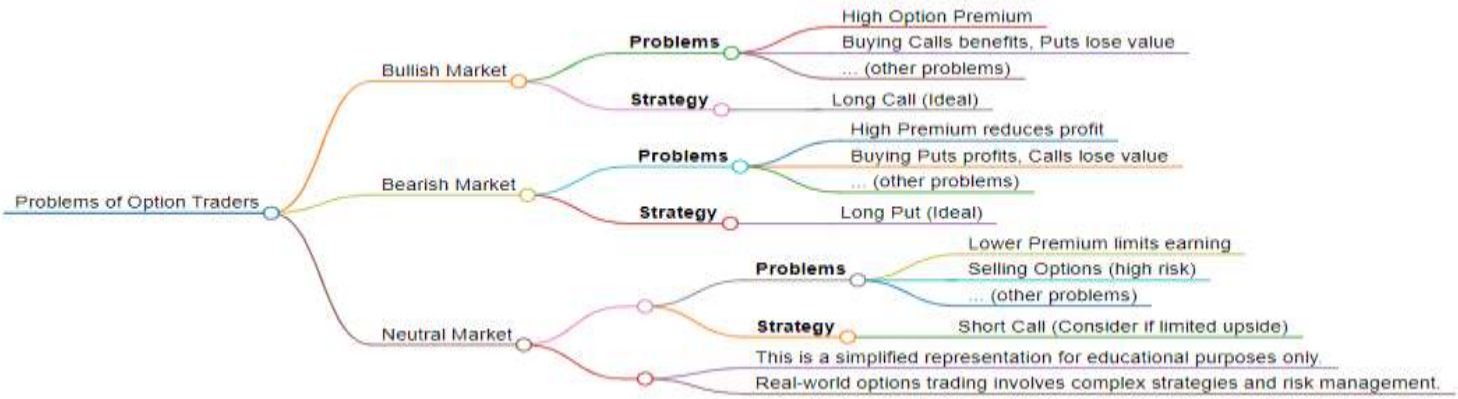
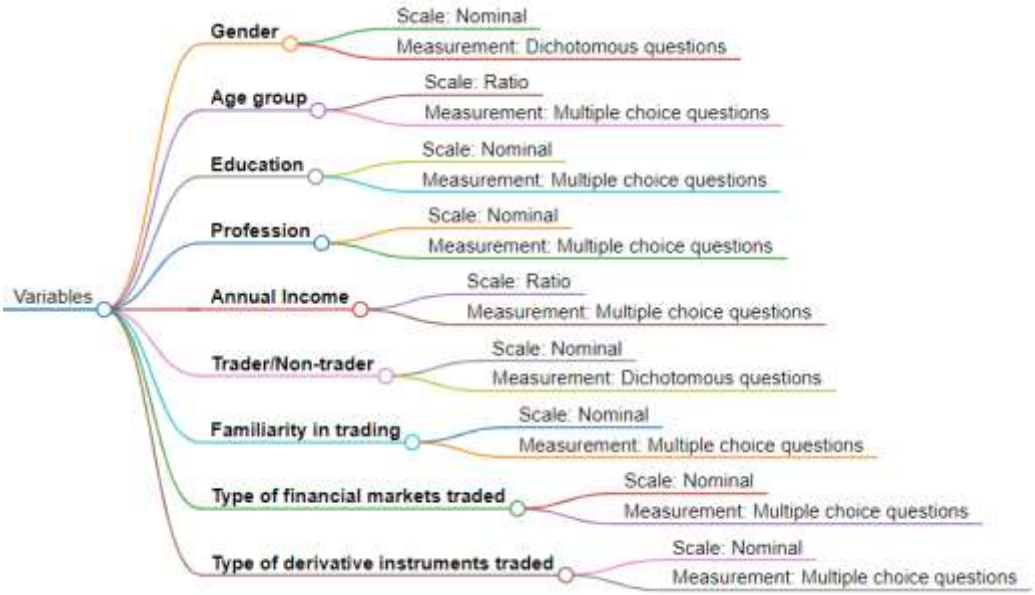
Table 2: Variables taken into account for the research



Measuring scale overview: The layout of the survey and response format selection are tightly connected. Scales come in four varieties: nominal, ordinal, ratio, and interval. The measuring scales used in the investigation are detailed in the following.

Fig 3: Displaying an explanation of measuring scales



Data

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Collection

Fig 4: Gender Distribution

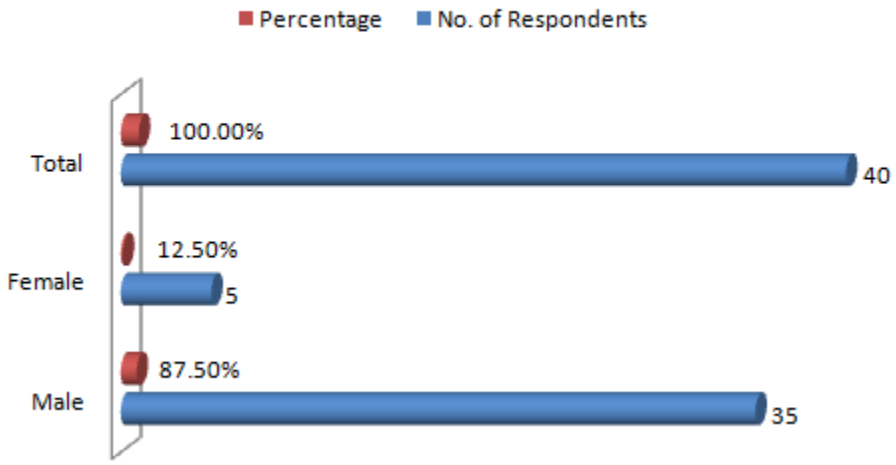

Fig 5: Age Group

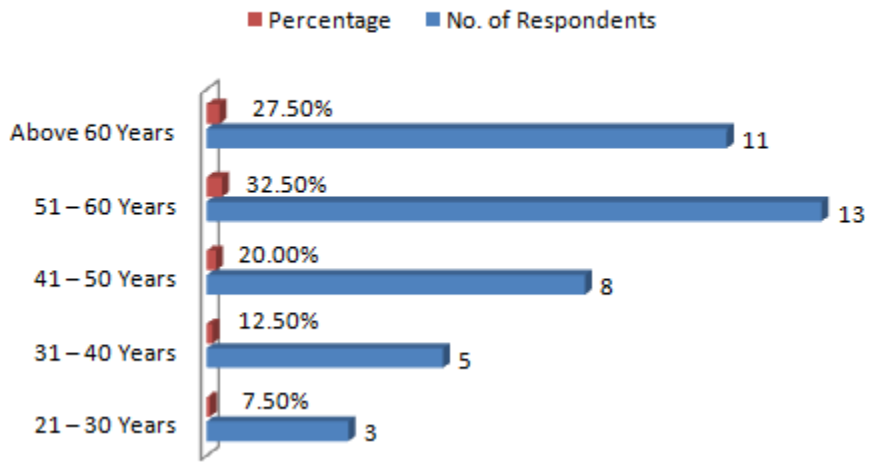

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Fig 6: Educational Profile

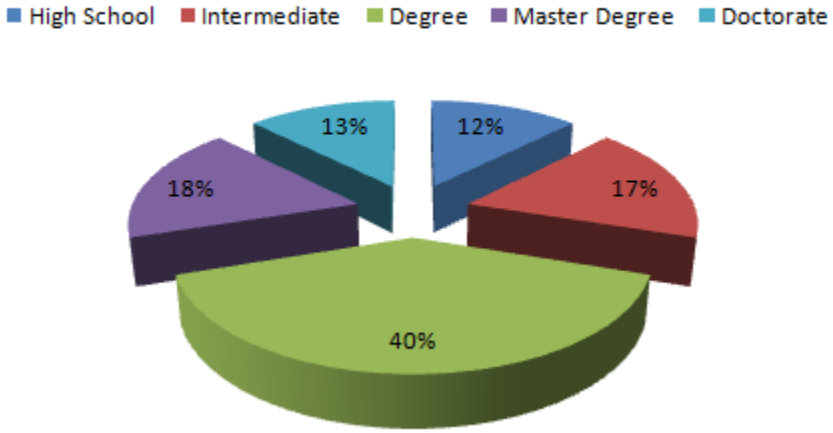

Fig 7: Professional & Income Profiles of the Respondents

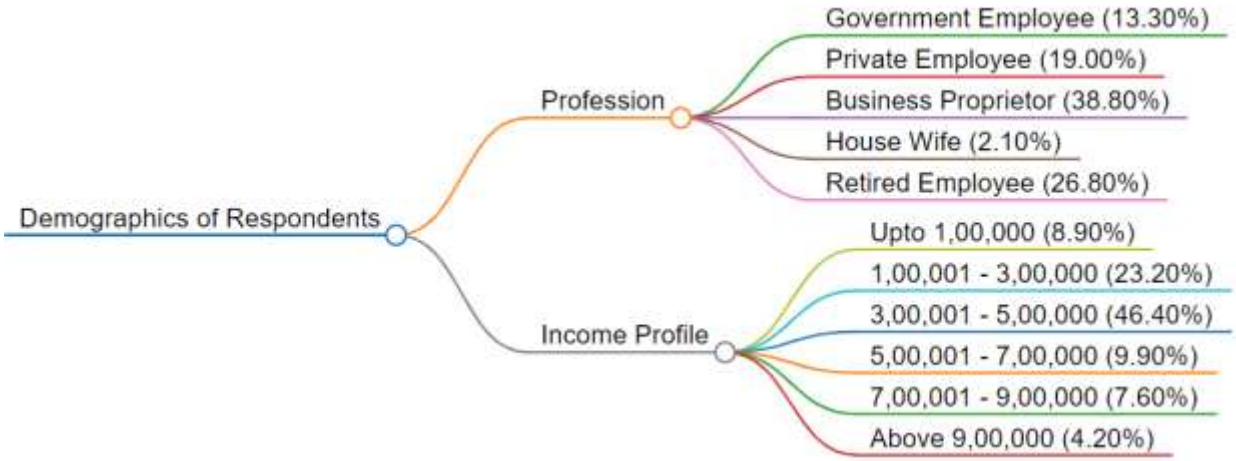

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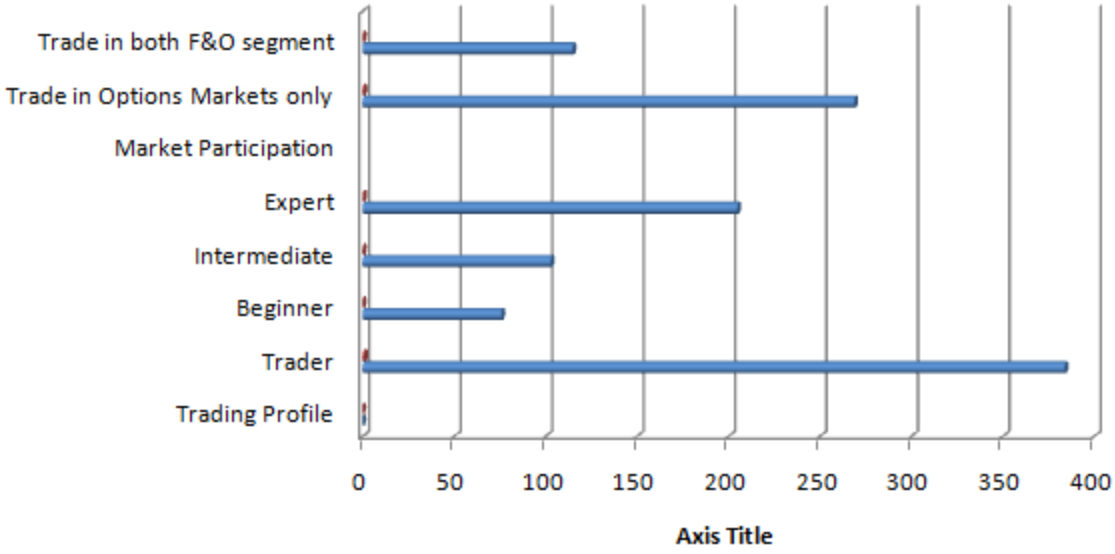
Fig 8: Trading Profile



Analysis

Table 1: One-way ANOVA results

Parameters	N	Mean	Std. Deviation	F	Sig.
V1. A trader can increase his profits in a stock option contract by taking a long call position.					
Bullish	13	1.78	1.064	1.618	0.210
Neutral	13	1.86	1.123		
Bearish	14	3.40	1.619		
Total	40	2.35	1.493		
V2. A trader can increase his earnings in an option contract by taking a short-call position.					
Bullish	13	3.65	1.589	2.000	0.149
Neutral	13	3.65	1.589		
Bearish	14	1.70	1.045		
Total	40	3.00	1.700		
V3. A trader can increase his profits in a stock option contract by taking a long put position.					
Bullish	13	1.70	1.045	0.008	0.992
Neutral	13	1.73	1.162		

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Parameters	N	Mean	Std. Deviation	F	Sig.
Bearish	14	1.70	1.045		
Total	40	1.71	1.085		
V4. A trader can increase his profits in a stock option contract by taking a short-put position.					
Bullish	13	3.65	1.447	0.183	0.833
Neutral	13	3.09	1.183		
Bearish	14	3.65	1.447		
Total	40	3.46	1.389		
V5. The amount of premium lost by the option holder will be reduced to the minimum by using option trading tactics effectively.					
Bullish	13	3.92	1.403	3.615	0.036*
Neutral	13	1.79	1.020		
Bearish	14	1.79	1.020		
Total	40	2.50	1.534		
V6. The risk of any individual stock option trading strategy is the same.					
Bullish	13	1.87	1.188	2.846	0.070
Neutral	13	1.92	1.140		
Bearish	14	3.92	1.403		
Total	40	2.57	1.572		
V7. The risk of various Index Stock Option trading techniques is the same.					
Bullish	13	1.87	1.188	2.846	0.070
Neutral	13	1.92	1.140		
Bearish	14	3.92	1.403		
Total	40	2.57	1.572		
V8. The return on various individual stock option trading techniques is the same.					
Bullish	13	1.87	1.188	2.846	0.070
Neutral	13	1.92	1.140		

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Parameters	N	Mean	Std. Deviation	F	Sig.
Bearish	14	3.92	1.403		
Total	40	2.57	1.572		
V9. The return on various Index Stock Option trading techniques is equal.					
Bullish	13	1.87	1.188	2.846	0.070
Neutral	13	1.92	1.140		
Bearish	14	3.92	1.403		
Total	40	2.57	1.572		

A one-way ANOVA was used to study the means of several variables under bullish, impartial, and bearish market conditions. The consequences show that, for the bulk of the variables (V1, V2, V3, V4, V6, V7, V8, and V9), there's no statistically widespread exchange inside the approach across the three market eventualities ($p < 0.05$). This demonstrates that the responses to these variables have been similar whether or not the market changed into bullish, impartial, or bearish. The implementation of alternative trading strategies can significantly reduce the premium loss to the option holder.This is the identification of variable V5, for which the ANOVA end result turned out to be statistically significant ($p = 0.036$). This implies that the mean solutions for this variable vary considerably depending on whether the market is bullish, neutral, or bearish.

Research Gap:

Although the difficulties encountered by Indian option traders have been thoroughly examined, there is still a lack of study on the subtle effects of market circumstances on option trading methods. The research leaves opportunity for a more detailed examination of how different market trends affect the efficacy of certain trading strategies since it mainly focuses on general concerns. The research can also go more deeply into the behavioural aspects of traders, taking into account psychological elements that might influence how traders make decisions in various market conditions.

Future Recommendations:

Future study should use sophisticated statistical models for a detailed examination of market circumstances and a larger sample size in order to fill the observed research gap. It is important to include behavioural economics concepts in order to comprehend the psychological factors

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affecting traders. Furthermore, longitudinal research that follows traders' experiences over time may provide a dynamic viewpoint. Furthermore, examining how new technologies affect risk management and option trading may provide insightful information about how the financial markets are changing.

Conclusion

In particular, the research performed on the problems and opportunities faced by Indian option traders, especially on stock options on the National Stock Exchange, highlights the complex nature of the difficulties related to option trading. The study highlights vital issues with alternative contracts, chance management, and trading methods, illuminating the difficulties Indian marketplace players confront. The research adds to a better knowledge of the dynamics of choice trading by way of the use of a descriptive method and analysing statistics from a pattern of 40 traders. The outcomes underscore the need to take marketplace circumstances into consideration when designing trading strategies that work. Specifically, substantial differences have been found in the manner in which premium losses have been perceived in bullish, impartial, and bearish marketplace conditions.Even though the study offers insightful statistics, in addition, intense research remains required, mainly to realise the psychological components of traders option-making processes and the changing effects of the growing technology on option buying and selling. In order to absolutely seize the dynamic person of traders' reviews over the years, future research endeavours have to consider longitudinal studies, increasing the sample size, and adding behavioural economics standards. All matters taken into consideration, this observe establishes the inspiration for destiny studies with the goal of enhancing the effectiveness of alternative buying and selling strategies and adding to the converting Indian monetary marketplace environment.

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