History Research Journal

ISSN:0976-5425
Vol-5-Issue-6-November-December-2019

Investment Behaviour of Investors Towards Commodity Market in Dindigul District

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Abstract

The study was undertakento know the investment behaviour of investors towards commodity market. It should find out the Behaviour of investors. Commodity markets are an ideal investment for today's modern financial scenario. Now investor can trade in India in selected commodities, electronically. In this paper, commodity market, history of commodity market, meaning of investors and types of investors trading in commodity market. The impacts of various demographic factors on investment behaviour towards commodity markets have also been studied. For measuring various phenomena and analysing the collected data effectively and efficiency for drawing sound conclusion, Chi-square and Correlation analysis has been used to analyze the various demographic factors. The study also helps to understand the role of investment behaviour of investors towards commodity markets.

Keywords: commodity markets industry, types of investors, investment behaviour.

I. INTRODUCTION

Commodity markets have become alternative investment class world over. Now investor can trade in India in selected commodity, electronically. These commodities are traded on regulated commodities exchanges, in which these are bought and sold in standardized contracts. Just like equity futures in Stock Exchange, different commodities are available in the standardized format with fixed tenure and specification for trade on the commodity exchange.

History of commodity market in India

Organized commodity derivatives in India started as early as 1875, barely about a decade after they started in Chicago. However, many feared that derivatives fuelled unnecessary

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speculation and were detrimental to the healthy functioning of the markets for the underlying commodities. As a result, after independence, commodity option trading and cash settlement of commodity futures were banned in 1952. A further blow came in 1960s when, following several years of severe draughts that forced many farmers to default on forward contracts (and even caused some suicides), forward trading was banned in many commodities considered primary or essential. Consequently, the commodities derivative markets dismantled and remained dormant for about four decades until the new millennium when the Government, in a complete change in policy, started actively encouraging the commodity derivatives market. Since 2002, the commodities futures market in India has experienced an unprecedented boom in terms of the number of modern exchanges, number of commodities, which might cross the $ 1 trillion mark in 2006. However, there are several impediments to be overcome and issues to be decided for sustainable development of the market.

Features of commodity market

There is only one segment in commodity market i.e., there is no derivative and cash segments in commodities like in equity market. However there are two types of contracts in commodity trading, one cash settled contracts where there is no delivery on expiry of contract's tenure and trade will get settled only in cash, other is both cash and delivery settled contracts where buyer has to take physical delivery (if opted before executing their trade) of goods after the expiry of the contract's tenure. In addition to this, there is an option available where buyer can trade commodities including bullion in dematerialized from with National Spot Exchange is regulated by respective State Government.

MEANING OF INVESTOR

An investor is any party that makes an investment. The term has taken on a specificmeaning in finance to describe the particular types of people and companies that regularly purchase equity or debt securities for financial gain in exchange for funding an expanding company. Less frequently, the term is applied to parties who purchase real estate, currency, commodity derivatives, personal property, or other assets. The term implies that a party purchases and holds assets in hopes of achieving capital gain or cash flow, not as a profession or for short-term income.

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Types of commodity trading

Spot Trading:spot trading is any transaction where delivery either takes place immediately, or with a minimum lag between the trade and delivery due to technical constraints. Spot trading normally involves visual inspection of the commodity or a sample of the commodity, and is carried out in markets such as whole markets. Commodity markets, on the other hand, require the existence of agreed standards so that trades can be made without visual inspection.

Forward contracts: A deal for the purchase or sale of a commodity, security or other asset can be in the spot or forward markets. A spot or cash market is the most commonly used for trading. A majority of our day-to-day transactions are in the cash market, where we pay cash and get the delivery of the goods. In addition to a cash purchase, another way to acquire or sell assets is by entering into a forward contract, the buyer agrees to pay cash at a later date when the seller delivers the goods.

Futures contracts:A futures contract is a standardized contract between two parties where one of the parties commits to sell, and the other to buy, a stipulated quantity (and quality, where applicable) of a commodity, currency, security, index or some other specified item at an agreed price on a given date in the future.

Hedging:hedging, a common (and sometimes mandatory) practice of farming cooperatives insures against a poor harvest by purchasing futures in the same commodity. If the cooperative has significantly less of its product to sell due to weather or insects, it makes up for that loss with a profit on the markets, since the overall supply of the crop is short everywhere that suffered the same conditions.

Delivery and condition guarantees: in addition, delivery day, method of settlement and delivery point must all be specified. Typically, trading must end two (or more) business days prior to the delivery day, so that the routing of the shipment can be finalized via ship or rail, and payment can be settled when the contract arrives at any Modern Commodity Exchanges.

Commodity Market is an organized traders' exchange in which standardized,graded products are bought and sold. Worldwide, there are 48 major commodity exchanges that trade over 96 commodities, ranging from wheat and cotton to silver and oil. Most trading is done in futures contracts, that is, agreements to deliver goods at a set time in the future for a price established at the time of the agreement.

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Trading of S&P 500 and other financial futures has broken down some of the barriers that once separated stock, bond, and commodity markets and made it easier for investors to hedge their stock investments. Critics charge that the futures trading at the commodity markets in Chicago have made stock prices more volatile.

The Chicago Board of Trade is the largest futures and options exchange in the United States, the largest in the world is Eurex, an electronic European exchange.

II.REVIEW OF LITERATURE

Rajarajan V (1997, 1998, 2000 and 2003) classified investors on the basis of their demographics. He has also brought out the investors' characteristics on the basis of their investment size. He found that the percentage of risky assets to total financial investments had declined as the investor moves up through various stages in life cycle. Also investors' lifestyles based characteristics has been identified. The above discussion presents a detailed picture about the various facets of risk studies that have taken place in the past. In the present study, the findings of many of these studies are verified and updated.

Ahuja (2005) stated that a contracts in the commodity futures is an agreement for buying are selling a commodity for predetermined delivery price at a specific future time. Futures are standardized contract that are traded on organized future exchange that ensures Behaviour of the contracts and thus remove the default risk.

Kannadhasan (2006) examined the factors that influence the retail investors' decision is investing. The decision of retail investors is based or various dependent variables viz., Gender, age, marital status, educational level, income level, awareness, preference, risk bearing capacity.

HM Treasury (2008)assert that ''the data show no consistentrelationship between rising investment activity and prices acrosscommodities''. Rather, ''econometric analysis finds that, in mostcases, high and rising prices attract investors into the market, notthe other way around. When it is found to run in the oppositedirection, it is weakly significant and short term''.

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III.RESEARCH METHODOLOGY

OBJECTIVES OF THE STUDY

1. To analyze the various demographic factors influencing investment behaviour of the investors in commodity market.
2. To study therelationshipbetween investor's knowledge in commodity market and investor's investment satisfactionto investing in commodity markets.

CONVENIENT SAMPLING

The technique used for the study is convenient sampling. In this technique samples were selected as per the convenience of the researcher. Population elements are selected for inclusion in the sample based on the case of access.

QUESTIONNAIREMETHOD

This method of data collection is quite popular, particularly in case of enquiries. Questionnaire is used to collect the primary data. In this method a questionnaire is sent to persons connected with a request to answer the questionnaire and return the questionnaire. A questionnaire consists of a number of questions printed or typed in a definite order on a form or set of forms. The respondents have to answer the questions on their own. This method has merits of its own. A few of them are low cost; large samples could be covered, more reliable and dependable, easily approachable and responsible.

DATA COLLECTION

All the data required for this descriptive study have been obtained mainly from primary sources. The secondary data have been collected from various books, magazine, journals and internet.

The data collection method used to obtain the desired information from primary sources has been through direct interview and questionnaire has been used as an instrument.

SAMPLE SIZE

For the purpose of this study 200 respondents have been chosen on a randomly convenient sampling.

DATA ANALYSIS TOOL

The data collected were coded and transferred into **Statistical package For Social Science (SPSS).The tools used are Chi-square and correlation.**

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IV. ANALYSIS RESULTS

Chi-Square Test

Table 1 shows Demographic Variables * Investor Behaviour

Age * Investor Behaviour							
Age	Investor Behaviour			Total	Value	Df	Sig. Value
	Low	Medium	High				
Below 20 years	5	13	90	108	**24.900**	**8**	**.002**
21-30 years	2	33	1	36			
31-40 years	5	11	3	19			
41-50 years	2	4	6	12			
Above 50 years	6	8	11	25			
Total	20	69	111	200			
Educational Qualification * Investor Behaviour							
Educational Qualification	Investor Behaviour			Total	Value	Df	Sig. Value
	Low	Medium	High				
Post Graduation	6	12	101	119	**28.685**	**8**	**.000**
Graduation	2	35	1	38			
ITI	3	9	3	15			
HSC Level	2	3	2	7			
Diploma	7	10	4	21			
Total	20	69	111	200			
Investment Experience * Investor Behaviour							
Investment Experience	Investor Behaviour			Total	Value	Df	Sig. Value
	Low	Medium	High				
Below 5 Years	6	10	88	104	**18.241**	**8**	**.019**
5 – 10 Years	4	30	5	39			
11 – 15 Years	1	12	5	18			
16 – 20 Years	3	5	4	12			
Above 20 Years	6	12	9	27			
Total	20	69	111	200			
Annual Income * Investor Behaviour							
Annual Income	Investor Behaviour			Total	Value	Df	Sig. Value
	Low	Medium	High				
Below Rs. 100000	6	12	99	117	**26.959**	**8**	**.000**
Rs. 100001-200000	4	33	2	39			
Rs. 200001-300000	2	11	2	15			
Rs. 300001-400000	2	3	3	8			
Rs. 400000 & above	6	10	5	21			
Total	20	69	111	200			

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Occupation * Investor Behaviour							
Occupation	Investor Behaviour			Total	Value	Df	Sig. Value
	Low	Medium	High				
Business	6	35	37	78	**9.268**	**8**	**.247**
Professional	7	22	39	68			
Government Service	4	4	19	27			
Private Service	1	3	7	11			
Retired	2	5	9	16			
Total	20	69	111	200			

Source: Primary Data

H_1: There is an association between investor's opinions about and level of their Behaviour in the commodity market.

Age * Investor's Behaviour

It is gathered from the above result about investor's investment Behaviour and the obtained 'F'-value indicates 24.900 and the 'p' value (0.002) is lesser than 0.01. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis is accepted. So there is an association between the investor's opinions about the level of their investment Behaviour in the commodity market on the basis of their age.

Education * Investor's Behaviour

It is gathered from the above result about investor's investment Behaviour and the obtained 'F'-value indicates 28.685 and the 'p' value (0.000) is greater than 0.01. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis is accepted. So there is an association between the investor's opinions about the level of their investment Behaviour in the commodity market on the basis of their education.

Investment Experience * Investor's Behaviour

It is gathered from the above result about investor's investment Behaviour and the obtained 'F'-value indicates 18.241 and the 'p' value (0.019) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis is accepted. So there is an association between the investor's opinions about the level of their investment Behaviour in the commodity market on the basis of their experience in the field.

Annual Income * Investor's Behaviour

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It is gathered from the above result about investor's investment Behaviour and the obtained 'F'-value indicates 26.959 and the 'p' value (0.000) is greater than 0.01. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis is accepted. So there is an association between the investor's opinions about the level of their investment Behaviour in the commodity market on the basis of their annual income.

Occupation * Investor's Behaviour

It is gathered from the above result about investor's investment Behaviour and the obtained 'F'-value indicates 9.268 and the 'p' value (0.247) is greater than 0.05. So, the null hypothesis is accepted; the alternative hypothesis is rejected. Hence proposed hypothesis is rejected. So there is no association between the investor's opinions about the level of their investment Behaviour in the commodity market on the basis of their occupation.

CORRELATION ANALYSIS

Table 2 shows CORRELATION between – Occupational Stress * Work-Life

		Investor's Knowledge in Commodity Market	Investment Satisfaction in Commodity Market
Investor's Knowledge in Commodity Market	Pearson Correlation	1	.540**
	Sig. (2-tailed)		.000
	N	200	200
Investment Satisfaction in Commodity Market	Pearson Correlation	.540**	1
	Sig. (2-tailed)	.000	
	N	200	200

**** Correlation is significant at the 0.01 level (2-tailed).**

*** Correlation is significant at the 0.05 level (2-tailed).**

H_1: There is a positive relationship between investor's knowledge in commodity market and investor's investment satisfaction in commodity market.

It is gathered from the above table the obtained 'p' value is lesser than 0.01. The value is 0.540 indicate the investor's knowledge in commodity market is strongly correlated to investor's investment satisfaction and its p-value is 0.000 ($p < 0.01$). So, the null hypothesis is rejected;

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alternative hypothesis is accepted. Hence the proposed hypothesis is accepted. So there is a positive significant relationship between investor's opinions about their satisfaction to investing in commodity market on the basis of their knowledge about commodity market.

V.FINDINGS

- Table 1 shows that chi-square test It is gathered from the above result about investor's investment Behaviour and the obtained 'F'-value indicates 24.900 and the 'p' value (0.002) is lesser than 0.01. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis is accepted. So there is an association between the investor's opinions about the level of their investment Behaviour in the commodity market on the basis of their age.
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(0.247) is greater than 0.05. So, the null hypothesis is accepted; the alternative hypothesis is rejected. Hence proposed hypothesis is rejected. So there is no association between the investor's opinions about the level of their investment Behaviour in the commodity market on the basis of their occupation.

- Table 2 shows that correlation It is gathered from the above table the obtained 'p' value is lesser than 0.01. The value is 0.540 indicate the investor's knowledge in commodity market is strongly correlated to investor's investment satisfaction and its p-value is 0.000 ($p < 0.01$). So, the null hypothesis is rejected; alternative hypothesis is accepted. Hence the proposed hypothesis is accepted. So there is a positive significant relationship between investor's opinions about their satisfaction to investing in commodity market on the basis of their knowledge about commodity market.

VI. SUGGESTIONS

- It is proposed to have a common grievance cell to deal with the matters of investors when they are misguided.
- Government can create awareness among investors about commodity markets.
- The investors should be given the option of attending investors' education program once in a month. The information about the products should be revealed exactly to the investors, and they should be advised on the risks attached to them.
- Proper reports revealing all the information related to the investment have to be sent to the investors regularly and this can change the general investment behaviours towards commodity market.

CONCLUSION

The investment behavior of individual investors depends mainly on annual income and risk taking capacity.Investors should carefully study the commodity markets and risk involved before investing the organization can educate its investors on the risk and return in order to make their investments more effective. The investor's education program can be conducted by the organization in order to educate the investors.Investors can take their own steps in analyzing the market conditions and can be advised to make a portfolio and investment analysis on their investment. The investors should be given all the information regarding their investment and the benefits or the drawbacks of the investments.

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