



A Study on the Influence of Trading Behaviour on Trading Success in Equity F&O Market with Special Reference to Individual Traders in Bengaluru City

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Abstract

This study attempts to determine whether the trading behaviour of a person has any impact on his/her trading success in the equity F&O market. Data was collected from 52 active equity F&O traders in Bengaluru city using snowball sampling technique. The results of the percentage analysis reveal that 20 to 30% of the traders exhibit good trading behaviour and only 15 to 20% of them are successful in trading the equity derivatives market. The findings of structural analysis reveal that an individual investor's trading behaviour has a huge impact on his/her trading success. 71.1% of variance in trading success is influenced by a person's trading behaviour.

Keywords: Equity F&O, Trading Behaviour, Trading Success, Equity Derivatives.

Introduction

In India, the equity derivatives market is gaining huge popularity. This could be because derivatives are time and again considered as an easy way to make quick money. In fact, it is very tough to



make regular profits in the long run and be a prosperous derivatives trader. It is unusual for the brokerage industry to publish the failure rates of their clients as they are alarmed that the reality will hamper them from attracting fresh clients. Actually, informal estimations put forward that 95% of the day traders fail and retail investors fumble in the dark. But there are no empirical studies to prove this statistics. Though there are a lot of published books, there are hardly few empirical studies that have attempted to understand the characteristics or behaviour of a successful trader in the market.

Success of a trader can be quantitatively measured using his/her Net annual earnings generated from F&O trades and most significantly he/she should be happy with the overall earnings made. It is difficult for a trader to be 100% successful in all his trades but one can make sure that his winning trades are more than his losing trades. Success also can be defined by the trader's competence in cutting his losses small and allowing the profits run. In simple words a successful trader should be able to steadily make profits over an extended period of time.

Review of Literature

Agarwal D.K. (2020) in an article with Economic Times mentioned that the equity traders are a tribe who vary from usual investors in the market. They aggressively participate in the market, using strategies to profit from quick price changes in stocks. A clear focus and complete understanding of the markets, behavioural finance along with personal discipline is what is necessary for success in trading. In other words, education, experience, discipline and dedication are the key ingredients to thrive in stock trading. Jordan, D. J., & Diltz, J. D. (2003) reported that being a successful day trader is more challenging than the industry maintains. Two third of the sample of U.S. day traders lose money in the market. Around 20% of them were more than slightly profitable. The interpretation is that aspiring and novice day traders should give vigilant thought to why they think they will be amongst the 20% of the successful day traders. At least, they should make sure they have sufficient initial capital to tolerate the three- to five-month learning period that the industry endorses is essential to become prosperous.

Linnainmaa, J. (2005) studied the individual day traders in Finnish market and stated that the traders are very hesitant to end their day trades at a loss. They often have a habit of selling other stocks in their portfolio to fund their accidental purchases. Only 3 in every 10 day trades make positive returns in a month.

Hon, T. Y. (2012) examined the actions of small investors in the Hong Kong derivatives market using factor analysis. They studied five factors such as personal background, return performance, risk tolerance, reference group and cognitive style. The results of the study expose that among the factors studied, return performance, reference group and personal background (ascending order of importance) steadily influenced the trading behaviour of small investors in the derivatives market.

Kourtidis, D., et. al. (2017) tried to confirm if personality characters are correlated with stock trading behaviour (including stock trading performance, volume and trading frequency). The findings attained the aim of the study, providing confirmation that personality characters have an influence on investors' trading behaviour and their stock performance.



Objectives of the Study

- To comprehend the trading behaviour of equity F&O traders
- To study how successful individual equity derivative traders are?
- To explore the impact of a person's trading behaviour on his/her trading success in equity F&O contracts

Research Methodology

A pilot survey was conducted among 52 active individual equity derivative traders in Bengaluru city through a self-administered questionnaire. The respondents were approached based on chain-referral method. The data collected was analysed using simple percentage analysis in spss and PLS Structural Equation Modelling.

Hypothesis to be Tested

H_0 – The trading behaviour of individual equity F&O traders has no influence on their trading success

H_1 – The trading behaviour of individual equity F&O traders has an influence on their trading success

Analysis and Discussion

Successful traders are usually very clear and specific about their trading objectives. Their trading goals are not always just related to making profits. It could also be like researching a new trading method every week, learning a stock market term every day, etc. The most vital quality for a trader is to plan his trades effectively. A trader may make more blunders if he doesn't have a plan. He might tend to give in to his emotions and lose discipline. It is important for a trader to keep track of all the trades, research and ideas in a trading journal and think over it on a daily basis. Doing so will help him to find his strengths and weaknesses and check his growth. The journal can be as simple as a notepad and pen or as sophisticated as a profit and loss graph Excel sheet. The more prepared a trader is, the greater the chances of success. Trading behaviour of an individual equity derivative trader was observed using seven questions as stated below.



Table 1: Trading Behaviour of Individual Trader's in Equity F&O Market

I plan my trades efficiently			
	Frequency	Percent	Cumulative Percent
Strongly Disagree	6	11.5	11.5
Disagree	5	9.6	21.2
Neutral	12	23.1	44.2
Agree	15	28.8	73.1
Strongly Agree	14	26.9	100.0
Total	52	100.0	
I always have well-defined objective of return expectation			
Strongly Disagree	4	7.7	7.7
Disagree	4	7.7	15.4
Neutral	16	30.8	46.2
Agree	16	30.8	76.9
Strongly Agree	12	23.1	100.0
Total	52	100.0	
At all times I have a good exit strategy in place for my trades			
Strongly Disagree	4	7.7	7.8
Disagree	6	11.5	19.6
Neutral	9	15.4	35.3
Agree	17	32.7	68.6
Strongly Agree	16	32.7	100.0
Total	52	100.0	
I manage F&O trades like any other serious business			
Strongly Disagree	5	9.6	9.6
Disagree	5	9.6	19.2
Neutral	6	11.5	30.8
Agree	17	32.7	63.5
Strongly Agree	19	36.5	100.0
Total	52	100.0	
I am a very disciplined trader			
Strongly Disagree	5	9.6	9.6
Disagree	4	7.7	17.3
Neutral	19	36.5	53.8
Agree	11	21.2	75.0
Strongly Agree	13	25.0	100.0
Total	52	100.0	
I keep my trading strategy simple			
Strongly Disagree	4	7.7	7.7
Disagree	7	13.5	21.2
Neutral	6	11.5	32.7
Agree	19	36.5	69.2
Strongly Agree	16	30.8	100.0
Total	52	100.0	
I keep up a trading journal to introspect my trading behaviour			
Strongly Disagree	7	13.5	13.7
Disagree	7	11.5	25.5
Neutral	13	25.0	51.0
Agree	11	21.2	72.5
Strongly Agree	14	28.8	100.0
Total	52	100.0	



Interpretation of Table 1: 27% of traders strongly agree that they plan their trades efficiently, 23% of them always have well-defined objective of return expectation, 32.7% of the traders have a good exit strategy in place for my all their trades, 25% of the traders are highly disciplined, 36.5% of them strongly agree that they consider trading like any other important profession. 30.8% of traders keep their trading strategy simple and 28.8% of the traders keep up a trading journal to introspect their trading activities. It is evident that around 20 -30% of individual traders in the equity F&O market exhibit very good trading behaviour. The table also shows that 1 in every 4 traders strongly disagree or just disagree to have good trading behaviour.

Table 2: Trading Success of Individual Trader's in Equity F&O Market

My winning trades are greater than my losing trades			
	Frequency	Percent	Cumulative Percent
Strongly Disagree	5	9.6	9.6
Disagree	7	13.5	23.1
Neutral	16	30.8	53.8
Agree	13	25.0	78.8
Strongly Agree	11	21.2	100.0
Total	52	100.0	
I am competent enough to cut losses and let profits run in my F&O trades			
Strongly Disagree	3	5.8	5.8
Disagree	7	13.5	19.2
Neutral	21	40.4	59.6
Agree	10	19.2	78.8
Strongly Agree	11	21.2	100.0
Total	52	100.0	
On an average, I am able to steadily make profits over a long period of time in the F&O market			
Strongly Disagree	4	7.7	7.7
Disagree	11	21.2	28.8
Neutral	16	30.8	59.6
Agree	13	25.0	84.6
Strongly Agree	8	15.4	100.0
Total	52	100.0	
I am happy with the overall returns that I generate in derivatives trading			
Strongly Disagree	6	11.5	11.5
Disagree	10	19.2	30.8
Neutral	16	30.8	61.5
Agree	13	25.0	86.5
Strongly Agree	7	13.5	100.0
Total	52	100.0	

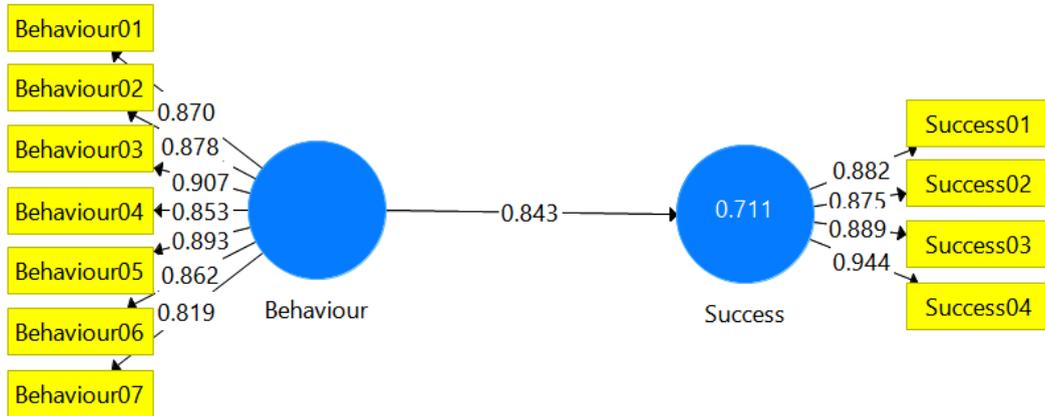
Interpretation of Table 2

21.2% of traders strongly agree that their winning trades are greater than their losing trades and also that they are competent enough to cut down their losses short and let their profits run. Only 15.4% of the traders are able to steadily make profits over a long period of time in the F&O market and



13.5% of them strongly agree that they are happy with the overall returns that they generate in derivative trading.

Figure 1: Relationship between Trading Behaviour and Trading Success



Structural Equation modelling is a broad statistical approach for testing hypotheses about relations among observed and latent variables (Hoyle, 1995). In the above figure, there are 2 latent variables, Trading Behaviour (Independent) and Trading Success (Dependent). Trading behaviour is measured using seven variables and trading success through four

The coefficient of determination, R^2 , is 0.711 for the endogenous latent variable “Trading Success”. This means that Trading Behaviour of an individual explains 71% of the variance in Trading Success.

Table 3: Measurement Loadings

	Behaviour	Success
Behaviour01	0.87	
Behaviour02	0.878	
Behaviour03	0.907	
Behaviour04	0.853	
Behaviour05	0.893	
Behaviour06	0.862	
Behaviour07	0.819	
Success01		0.882
Success02		0.875
Success03		0.889
Success04		0.944

Interpretation of Table 3

Measurement loadings are the standardized path weights connecting the factors to the indicator variables. From the above table it can be inferred that all the indicators are significant as their values are above 0.85. The value 0.70 is a standard for minimum measurement loadings. Another



rule is that an indicator with a measurement loading in the .40 to .70 range should be dropped if dropping it improves composite reliability (Hair et al., 2014: 103)

Table 4: Test of Reliability

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Behaviour	0.946	0.95	0.956	0.756
Success	0.92	0.924	0.943	0.807

Interpretation of Table 4

In the above table both Composite Reliability and Cronbach's Alpha are more than 0.9, showing that all the Constructs have very good internal consistency reliability score. To check convergent validity, each latent variable's Average Variance Extracted (AVE) is evaluated. Again from the above table, it is found that all of the AVE values are higher than the acceptable threshold of 0.7, so convergent validity is established.

Table 5: Model Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Behaviour -> Success	0.843	0.844	0.034	24.731	0

From the above table 5, it can be inferred that the above mentioned alternate Hypothesis H1, is accepted. That is the trading behaviour of individual equity F&O traders has an influence on their trading success.

Conclusion

The study shows that around 20 – 30% of traders in the equity derivatives market exhibit very good trading behaviour by strongly agreeing that they consider trading like any other serious business, they are disciplined and always efficiently plan their trades and have a well-defined trade objective. They also have a proper exit-strategy for every trade and always keep their trading approach simple and maintain a journal to introspect their trading behaviour.

15 – 20% of them are successful. The successful traders are those who strongly agree that they are happy with the overall returns that they generate in derivatives trading and their winning trades are usually greater than their losing trades. They are also competent enough to cut their losses short and let profits run. The study also further reveals that the trading behaviour of a person has a huge influence on his/her trading success in the equity F&O market.

Plato says that the “Human behaviour flows from three main sources: desire, emotion, and knowledge”. Therefore, further studies can measure the influence of market knowledge and emotional intelligence on trading behaviour and in turn how this impacts trading success.



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