INVESTMENT BEHAVIOUR TOWARDS COMMODITY MARKET

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Abstract

This study analyses the Indian Agricultural Commodity Markets. In an agricultural country like India, the price of agricultural commodities, especially of food grains hold a key position in the price structure of the country. The commodity market in India has witnessed a phenomenal growth. The futures trading have ecosystem linkages which results in employment generation process. Commodity markets have a crucial role in developing agriculture dominated economies. Commodity markets have a significant role in the price risk management process especially in case of India being an agricultural dominated economy. The influence between the investor's overall satisfaction with various aspects underlying commodity trading such as Category search before making investment decision, Information search before making investment decision, technical analysis and fundamental analysis towards commodity market have also been studied. A Sample of 323 respondents is taken for this study

Keywords: Commodity Futures Market, Commodity Exchange, Agricultural commodities

I. INTRODUCTION

Investment is the sacrifice of certain present value for the uncertain future reward. It entails arriving at numerous decisions such as type, mix, amount, timing, grade, etc. of investment and disinvestment. Further, such decision-making has not only to be continuous but rational too. Broadly speaking, an investment decision is a trade off between risk and return. All investment choices are made at points of time in accordance with the personal investment ends and in contemplation of an uncertain future. Since investments in securities are revocable, investment ends are transient and investment environment is fluid, the reliable bases for reasoned expectations become more and more vague as one conceives of the distant future. Investors in securities will, therefore, from time to time, reappraise and re-evaluate their various investment commitments in the light of new information, changed expectations and ends.

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Investment choices or decisions are found to be the outcome of three different but related classes of factors. The first may be described as factual or informational premises. The factual premises of investment decisions are provided by many streams of data which taken together, represent to an investor the observable environment and general as well as factors entering into investment decisions may be described as expectations premises. Expectations relating to the outcomes of alternative investments are subjective and hypothetical, in any case, but their foundations are necessarily provided by the environmental and financial facts available to investors. These limit not only the range of investments which may be undertaken but also the expectations of outcomes which may legitimately be entertained. The third and final class of factors may be described as vocational premises. For investors generally these comprise the structure of subjective preferences for the size and regularity of the income to be received from and for the safety and negotiability of specific investments or combinations of investments, as these are appraised from time to time.

1.1 Success in Investment

Success in most things is relative, and not less so in the field of investment. Success in investment means earning the highest possible return with the constraints imposed by the investor's personal circumstances- age, family, needs, liquidity requirements, tax position and acceptability of risk. If possible, performance should be measured against alternative investments or combinations of investments, available to the investor within those constraints. Genuine success also means winning the battle against inflation, against the fall in the real value of savings and capital.

To be a successful investor, one should strive to achieve no less than the rate of return consistent with the risk assumed. If markets are efficient, abnormal returns are not likely to be achieved, and so the best one can hope for a return consistent with the level of risk assumed. The trick is to assess the level of risk we wish to assume and make certain that the collection of assets we buy fulfils our risk expectation. As a reward for assuming this level of risk, we will receive the returns that are consistent with it. If, however, we believe that we do better than the level of return warranted by the level of risk assumed, then success must be measured in these terms. But care must be exercised here. Merely realizing higher returns does not indicate success in this sense. We are really talking about outperforming the average of the participant in the market for

assets. And if we realize higher return we must be certain that we are not assuming higher risk consistent with those returns in order to measure our success. Thus we are left with two definitions of success.

(i) Success is achieving the rate of return warranted by the level of risk assumed. Investors expect returns proportional to the risk assumed.

(ii) Success is achieving a rate of return in excess of warranted by the level of risk assumed. Investors expect abnormal returns for the risk assumed.

1.2 Behavioural Finance

Behavioural finance is a new paradigm of finance theory, which seeks to understand and predict systematic financial market implications of psychological decision making (Oslen, 1998).

Behavioural finance is defined by Shefrin, (1999) as "a rapidly growing area that deals with the influence of psychology on the behavior of financial practitioners.

Research in behavior finance is relatively new. Within behavioural finance it is assumed that information structure and characteristics of the market systematically individual's investment decisions as well as market outcomes. According to behavioural finance, investor, market behavior derives from psychological principles of decision making, to explain why people buy or sell stocks. Behavioural finance focuses upon how investors interpret and act on information to make investment decisions. In addition the behavioural finance places an emphasis upon investment behavior leading to various market anomalies.

Behavioural finance is a framework that augments some parts of standard finance and replaces other parts. It describes the behavior of investors and managers; it describes the outcomes of interactions between investors and managers in financial and capital markets; and it prescribes more effective behavior for investors and managers. finance is of interest because it helps to explain why and how markets might be inefficient. Behavioural finance is also defined as a field of finance that proposes psychology-based theories to explain stock market anomalies. Within behavioural finance, it is assumed that the information structure and the characteristics of market participants systematically influence individual's investment decisions as well as market outcomes.

According to behavioural finance, investors are "normal", not rational. Markets are not efficient, even if they are difficult to beat. Investors design portfolios according to the rules of

behavioural portfolio theory, not mean-variance portfolio theory. And expected returns to follow behavioural asset pricing theory, in which risk is not measured by beta and expected returns are determined by more than risk. In this chapter, we describe each of these building blocks of behavioural finance.

The central issue in behavioural finance explains why market participants make systematic errors. Such errors affect prices and returns, creating market inefficiencies. Behavioural finance highlights inefficiencies such as under-or over-reactions to information as causes of market trends. Such reactions have been attributed to limited investor attention, overconfidence, over-optimism and noise trading. Technical analysts consider behavioural finance to be the theoretical basis for technical analysis. Loss aversion appears to manifest itself in investor behavior as a reluctance to sell shares or other equity, if doing so would result in a nominal loss.

Globally, economic growth of any country fully depends upon the growth of its financial markets during the last decade, particularly after globalization. So every country in the world, not only India, is concentrating more on its share market and investment sector. Various Governments all over the world take many steps to attract individual people to take part and make investments in share market. Though investing in share market, i.e., in equity shares of companies / corporate could offer returns higher than the inflation rate, help to build assets (wealth) and help to improve one's standard of living, such returns are inconsistent due to high volatility equity market. Moreover, making investments in equity (share) market involves high risk, though it can be moderated by proper and careful stock selection along with close monitoring of the market. Instead of taking high risk and concentrating more on stock selection process in the equity market, there is another avenue in the investment market to earn money with less risk, i.e., commodity market. However, whether investments in the equity market or commodity market are high risk or low risk, the modern finance portrays investment decision-making as a rational choice. The decision-making of the investors before investing in equity/commodity market relies highly on their behavior strategies, i.e., the practical implications of behavioural finance.

1.3 Commodity

Commodity is any physical substance such as food grains, metals, which is interchangeable with any other product of the same type with which on investor or trader is able to buy or sell, generally future contract. The Indian forward contracts (regulation) act (FCRA), 1952 defines kinds of goods allowed for commodity trading. This FCRA defines every kind of moveable property other than money, actionable claims and securities as 'goods' for commodity trading. At present, all products and goods of agricultural, metals, minerals and fossil origin are recognized under the FCRA for commodity trading. The Government of India has set up on a change, called National Commodity Exchange for commodity trading. The commodities permitted by the Government of India for trading through this exchange are: non-ferrous precious metals like Gold and Silver, cereals and pulses, ginned and un-ginned cotton, oil seeds, oil and oil cakes, raw jute and jute goods, sugar and gur, potatoes and onions, coffee and tea, rubber and spices.

1.4. STATEMENT OF THE PROBLEM

Investment behaviour is a complex subject in nature. The commodity market in India has its effect on economic growth and development. The investment decisions are linked with many factors like demographic profile of the investors, information on commodity market, investment pattern, group of commodity, commodity trading services, factor analysis of investor behaviour, investment decision, investor decision making. This factor can give a broad idea to understand the market and to take necessary steps to improve investments potential in the sample area. The main problem for this is insufficient information about various facets of commodity market. Some problem in the commodity market is the unawareness of the investors about price fluctuations in the commodity traded.

1.5. OBJECTIVE OF THE STUDY

1. To find out the relationship between socio-economic characteristics and investors decision making of commodity market

II. REVIEW OF LITERATURE

Senthil kumar (2012) showed that mobilization of domestic financial resource has remained a major concern in many developing countries. Despite the variety of vehicles that are intended to mobilize and allocate financial resources, savings are increasingly beings acknowledged as a powerful tool for poverty reduction postal savings funds play a significant role in financing public debt and in a number of countries, the funds are intermediated through a variety of policies based financial institutions with development objectives, returning the funds to the direct benefits to the community of savers. Savings is the excess of income over consumption expenditure.

Isha Chhajed and Sameer Mehta (2013) examined the price discovery mechanism is quite effective for most commodities, but may not be very effective for some commodities. They found several natural processes such as seasonal cycles based on harvests, monsoons, depressions, and other weather events would also he expected to have an impact on price discovery in commodity markets; this is another area that needs to be studied.

Palanivelu and Chandrakumar (2013) highlighted that certain factors of salaried employees like education level, awareness about the current financial system, age of investors etc. makes a significant impact while deciding the investment avenues.

Thirumagal Vijaya and Suganya (2015) in his study titled "Marketing of Agricultural products in India" Selling on any agricultural products depends on some couple of factors like the demand of the product at that time, availability of storage etc. the task of distribution system is to match the supply with the existing demand by whole selling and retailing in various points of different markets like primary, secondary or terminal markets. Most of the agricultural products in India are sold by farmers in the private sector to moneylenders or to village traders.

III. RESEARCH METHODOLOGY

Research Design	**Descriptive Research**
Sample Design	
Sampling Frame	Investors who are investing in MEX commodity market, Dindigul.
Sampling Unit	Investors from different age groups, gender, occupation, income levels, experience levels and educational backgrounds.

Sampling Size	323 Investors were selected from around 1000 Investors in Dindigul, for this study.
Sampling Methods	Convenience sampling (Non-Probability Sampling)
Data Collection Methods	
Primary Data	Survey Method (The entire schedule is standardized and formalized)
Secondary data	Data were collected from respondents and journals and from previous study related to the study.
Type Of Schedule	Structured Questionnaire with suitable scaling.

IV. REGRESSION ANALYSIS

(H_0: There is no significant influence between the investor's overall satisfaction with various aspects underlying commodity trading scores based on variation over the variables such as Category search before making investment decision, Information search before making investment decision, technical analysis and fundamental analysis.**)**

Table 4.1 Pearson Correlation - Over all Overall satisfaction with various aspects underlying commodity trading

	Category search before making investment decision	Information search before making investment decision	Technical analysis	Fundamental Analysis
Overall satisfaction with various aspects underlying commodity trading	0.644**	0.485**	0.421**	0.259**
Category search before making investment decision	**1.000**	0.931**	0.761**	0.793**
Information search before making		**1.000**	0.866**	0.903**

investment decision				
Technical analysis			**1.000**	0.825**
Fundamental analysis				**1.000**

** Significant at 1 %

First we look at the correlation of the variables with each other. The correlation table is shown in Table 4.1. The values in the correlation table are standardized and range from -1 to +1. The correlation table shows that the Overall satisfaction with various aspects underlying commodity trading score have highly significant correlation with the dependent variables of 'Category search before making investment decision, Information search before making investment decision, Technical analysis, Fundamental analysis'.

Descriptive table 4.2 provides the mean and the standard deviation for each variable in the analysis. The variables entered and removed from the model are listed and the following goodness-of-fit statistics are displayed: multiple R.

Table 4.2 Descriptive statistics

	Mean	**Std. Deviation**	**R^2**
Overall satisfaction with various aspects underlying commodity trading	25.52	5.78	0.617**
Category search before making investment decision	72.12	21.32	
Information search before making investment decision	52.06	18.08	
Technical analysis	13.37	3.87	
Fundamental analysis	18.96	5.08	

The table also reports the strength of the relationship between the model and the dependent variable. R, the multiple correlation coefficients, is the linear correlation between the observed and model-predicted values of the dependent variable. Its large value indicates a strong relationship.

The ANOVA table 4.3 reports a significant F statistic, indicating that using the model is better than guessing the mean. As a whole, the regression does a good job of modelling Overall satisfaction with various aspects underlying commodity trading score. The ANOVA table tests the acceptability of the model from a statistical perspective.

Table 4.3 ANOVA

	Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Regression	6634.14	4	1658.53	127.88	< 0.001**
Residual	4124.44	318	12.97		
Total	10758.58	322			

The Regression row displays information about the variation accounted for the model. The Residual row displays information about the variation that is not accounted for the model. The regression sum of square is greater than residual sums of squares, which indicates that nearly sixty two percent of the variation in Overall satisfaction with various aspects underlying commodity trading score is explained by the model. The significance value of the F statistic is less than 0.01, which means that the variation explained by the model is not due to chance.

Table 4.4 Regression Coefficients

	B	**Std. Error**	**t**	**P**
(Constant)	14.858	1.072	13.854	< 0.001**
Category search before making investment decision	0.354	0.028	12.828	< 0.001**
Information search before making investment decision	0.126	0.051	-2.494	0.013*
Technical analysis	0.544	0.108	5.031	< 0.001**
Fundamental analysis	0.821	0.098	-8.414	< 0.001**

a. Dependent Variable: Overall satisfaction with various aspects underlying commodity trading score

This table 4.4 shows the coefficients of the regression line. It states that the expected Overall satisfaction with various aspects underlying commodity trading score is equal to

$$\mathbf{Y = 14.86 + 0.354X_1 + 0.126X_2 + 0.544X_3 + 0.821X_4}$$

Looking at the significance values we see that Category search before making investment decision, Information search before making investment decision, Technical analysis Fundamental analysis and are significant ($P < 0.05$) in predicting the Overall satisfaction with various aspects underlying commodity trading scores.

5. CONCLUDING REMARKS

In the current scenario, investing in share markets is a major challenge ever for professionals. The investors should be aware of the various hedging and speculation strategies, which can be used for reducing their risk. Investors' may take high risk in investment in commodity market to earned high return since many of the investors are only taking moderate return. The investors" has to be encouraged with new schemes in the commodity market. The investors are suggested to consider technical analysis first followed by market trend before making investments. At the same time as the aspects establishing the behaviour of the investors are concerned, it is over and done along with that low risk, category search, informational irregularity, high return, technical analysis, fundamental analysis and updating knowledge are the seven essential factors. It is realized that investor's spotlight on positive features of an investment and their prospect estimations possibly will go in the wrong due to decline in the market.

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