

# **A Study on Commodity Trading and Investor Awareness**

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## **ABSTRACT :**

The study has attempted to evaluate the “investor”’s awareness level and factors considered for investment in commodity markets. The study has designed three objectives, namely, to describe the demographic variables of investors, evaluated the association between demographic variables and awareness level of investors and the factors determining the investor's decision to invest in commodity markets in India. The data were collected from both primary and secondary sources. The data were collected through a structured questionnaire of 101 individual respondents. Further, secondary data were collected from books, periodicals, magazines; etc. Chi-square test was used for data analysis. The study found that majority of the investor fall in the age group 18-25 and is graduated. Mostly the respondents were male and the majority of respondent”’s income was less than twenty thousand. The study suggested providing an awareness program to potential investors for creating awareness. There is a need to create awareness among different sets of investors in relation to a commodity market. The study suggests that the people who are least qualified can be informed the benefits of investments.

## **INTRODUCTION :**

The commodity market is an important consistent on the finance market of any country. In this market wide range of products precious metals, base metals, crude oil, energy and soft commodities like palm oil, coffee etc. are traded. It is important to develop a vibrant, active and liquid commodity market. Investors are interested to invest in commodity market, but they don't know how to invest and risk associated. Proper investor awareness programme can only help them to bring awareness of commodity market as an investment avenue. The Forward Market Commission was regulated by the Ministry of Consumer Affairs till September 2015. Later SEBI took over the charge and presently regulating commodity market. The average daily turnover is 25,648 crores in the year 2018-2019. There is an increase of 21% in the commodity market. The turnover has increased in segments such as energy (35 %), metals (18%) and bullion turnover (10%)

## **LITERATURE REVIEW**

Many researchers have worked on the demographic variables and its association with awareness level. Dhinakar & Jeevanandham (2016) found that there is no difference of investor investment and monthly income of investors, whereas Chandrakumar (2018) attempted to know the perception and awareness level of the commodity market. The study found that farmers are not aware of commodity markets. The study suggested more awareness should be created using advertisement in local channel, newspapers, etc. Melba & Bhavan (2017) has evaluated the relationship between the commodity market and price of the /commodity like Gold, Crude oil etc. The study indicated that farmers perceive the opportunity to take benefits of price discover on a platform of commodity exchange, whereas non-trader member perceives opportunity in long term price signal (Verma & kumawat, 2015).

There are few studies which have highlighted the preferences of investors in commodity markets. Elankumaran & Ananth (2013) and Rakesh (2014) found that factors influence the investment in commodity markets are such as low risk, informational Asymmetry, high return, objective knowledge. Further Investors preferred to invest in crude oil, silver, copper and gold compared to other commodities such as natural gas, zinc, etc. (William, 2017) and stated that the awareness level is limited and most of the investors prefer to earn high returns in a short period. It is also found that high rate of return and wealth maximization is the motivating factors in commodity trading Prasad, Naidu, & Sri (2019). The studies also found that factor influencing the investment in commodity markets are such as low risk, informational Asymmetry, high return, objective knowledge.

The past studies have also suggested the investors of commodity markets to invest by learning. Venkateswari. R & Karthikeyan (2017) stated that the goal of the investor is to diversify the investment, followed by an increase in wealth. The author suggested the investor to update knowledge on the commodities market and further used scientific analysis, such as technical analysis for better investment and returns. Further Benny & John (2014) have indicated that investor education and income levels are crucial elements in making

investment in gold. It is also found that the goal of investors is to increase wealth followed by regular income and diversification respectively (Jeyakumar. P & Thirunarayanamy, 2018).

### **NEED FOR THE STUDY**

The awareness level of different investors is not unique. Each investor depending on his risk tolerance invests and the awareness level depends on various factors such as age, gender, education, income, rural and urban area, occupation. It also varies from person to person, urban to rural, state to state, etc. Further different factors may be considered by different investors while investing in the commodity market. Therefore, the researcher is attempting to evaluate the awareness level of investors to promote and enhance investment opportunity.

### **OBJECTIVE OF THE STUDY**

- To study the association of demographic variables and awareness level of investors in the commodity market.

### **RESEARCH METHODOLOGY:**

The study is descriptive in nature. The data have been collected from primary sources and secondary data. The primary data has been collected through questionnaire whereas secondary data has been procured from journals, databases such as SSRN, Shodganga, Google Scholar, newspapers, magazines, NCdex, Mcx, Websites of brokerage firms such as kotak commodities etc. The study collected data from 100 respondents in the city of Hyderabad, using purposive sample technique. The respondent should qualify two criteria, i.e., he/ she should be an investor and should invest in commodity market.

This study considers a structured Questionnaire for collecting data on the awareness level and the important factors considered by respondents. Question 1 to 6 relate to demographics whereas the remaining assess the factors considered awareness level of the commodity market and considered for investments in the commodity market.

The study has used variables to measure the awareness level of investors using demographic variables. The demographic Variables are Age, Gender, Income, Occupation, Qualification are considered for the study. The awareness level of investors is measured by inquiring into the investors' awareness of activities such as Trading operation, future markets, investment avenue, risk, Transaction charges, service charges, sales tax, clearing settlement process, warehousing, SEBI exchanges, SEBI Act, Investor protection. The study analysed the data using chi-square to understand the association of demographics and awareness level of investors using the statistical package for social sciences (SPSS) 20.0.

### **DATA ANALYSIS:**

The study will evaluate the awareness level & factor considered by investors for investment in commodity markets. The market is interested to evaluate the investor awareness level in the commodity market.

### **Demographic Variables:**

They are age, gender, income, occupation, education level of the respondents.

**Age:** It is an important demographic element that impacts awareness level of an investor in the commodity market. It has an effect on the magnitude of risk and return that the investors are willing to take. The Table 1 shows the age of respondents for the sample study. The majority of the respondents were in the age group of 18-25. Eighty four percent of respondents were in the age group of 18-25, followed by eleven percent, two percent and three percent in the age group of 25-30, 30-35 and 35-40 respectively.

**Gender:** It is an important demographic element that impacts the awareness level in the commodity market. The Table 1 shows the gender of respondents for the sample study. The majority of the respondents are female that is 53 percent and male are 47 percent

**Income of Respondents:** It is important demographic element that impacts awareness level in commodity market. The Table 1 shows the income of respondents for the sample study. The majority of the respondents were 55 percent with the income of less than 20000 where in 2000-30000 followed by sixteen percent, fourteen percent, seven percent and eight percent respectively.

Table1: Demographics Variable

Age	18-25	84%	Income	Less than 20,000	55%
	25-30	11%		20,000-30,000	16%
	30-35	2%		30,000-40,000	14%
	35-40	3%		40,000-50,000	7%
	40 & above	0%		50,000& above	8%
Gender	Male	53%	Occupation	Professional	15%
	Female	47%		Govt Employee	2%
				Pvt Employee	22%
Qualification	SSC	0%		Business	14%
	Intermdiate	1%		Other	47%
	Graduation	43%			
	Post-Graduation	54%			
	Others	3%			

**Occupation of Respondents:** It is an important demographic element that impacts awareness level on the commodity market. The Table 1 shows the occupation of respondents for the sample study. Forty seven percent of respondent's occupation is others, whereas two percent said they are privately employed. The proportion of professional and business is approximately 14 and 15 each. Only two percent were employed in government jobs.

**Qualification of Respondents:** It is an important demographic element that impacts awareness level in reference to a commodity market. The Table 1 shows the qualification of respondents for the sample study. The majority of the respondents are graduates constituting to fifty three percent respondents, where as in intermediate it is forty three percent. It is generally expected that higher qualification people have higher knowledge of investments.

## **ASSOCIATION BETWEEN DEMOGRAPHIC VARIABLES AND AWARENESS LEVEL**

The demographic variables are represented by age, gender, income, occupation and qualification, whereas the awareness level is assessed by commodity markets, awareness program, trading operation, commodity future market, investment avenue, sales tax, stock exchanges. The study has attempted to analyse the association between demographics and awareness level of investors

**Age and Awareness Level of Investors:** It is a very important demographic factor in evaluating the awareness level of investor. The awareness level of investors may depend on the age and age is directly linked to maturity of the person. It is also linked to the level of risk tolerance of investors. Young investor may accustom to risk while the elder investors may be risk averse. Depending on the age & awareness level, a person may invest in the market. The Table 2 shows the association between age and awareness level. Since the P-value (0.003) is less than the significance level (0.05). We can accept the alternate hypothesis and reject the null hypothesis. It can be concluded that as the age of respondent's increases, the awareness level also increases. Thus, we can conclude that there is a significant relationship between age and awareness level of investors.

### **Gender and Awareness Level of Investor:**

Today's generation are creative when compared to older generations in terms of socially or financially. The literature has indicated that the level of financial awareness of men is better than that of females in terms of literacy. In demographics variable it shows that awareness level of female is very high as compared to male. So, women are having more aware and have more knowledge on the market. So Investors easily invest in the market. The Table No 2 shows the association between gender and awareness level. Since the P-value (5.35) is more than the significance level (0.05). It can reject the alternate hypothesis and accept the null hypothesis. Thus, we can conclude that there is no significant relationship between age and awareness level of investors. **Income and Awareness Level of Investor:** It is also an important factor which influences the awareness level of investor. The result shows that lower income & high income have high preference towards investing in a market, conversely average investor is keen preference towards investing in the market. The Table 2 shows the association between Income and awareness level. Since the P-value (1.42) is more than the significance level (0.05). We can accept the null hypothesis and reject the alternate

hypothesis. Thus, we can conclude that there is no significant relationship between Income and awareness level of investors.

**Table 2: Association of Demographics and Awareness Level**

Research Hypothesis	Value	Sig	Decision
There is a significant association between Age and awareness level	763.081a	0.003	Accept
There is a significant association between Gender and awareness level	45.489a	0.535	Reject
There is a significant association between Income and awareness level	208.819a	0.142	Reject
There is a significant association between Income and awareness level	197.516a	0.303	Reject
There is a significant association between Qualification and awareness level	196.237a	0.001	Accept

**Occupation and Awareness Level of Investor:** It is also an important demographic factor, according to their occupation; they know where to invest and how they will make a profit. According to their occupation like if it is government employ so they don't have much knowledge about the market and how to invest in a market. But if they are private employees, they have more knowledge on markets and they invest often. The Table 2 shows the association between Occupation and awareness level. Since the Pvalue (3.03) is more than the significance level (0.05). Researcher can accept the null hypothesis and reject the alternate hypothesis. Thus, researcher can conclude that there is no significant relationship between occupation and awareness level of investors.

**Qualification and Awareness Level of Investor:** It is major important demographic variable because a qualification of investor sometimes referred to as an „accredited investor“. A person knows what to expect and know how the commodity market has performed. If a person is well qualified and have awareness of markets can invest very often. The Table 2 shows the association between age and awareness level. Since the P-value (0.01) is less than the significance level (0.05). Researcher can accept the alternate hypothesis and reject the null hypothesis. It can be concluded that as the Qualifications of respondent's increases, the awareness level also increases. Thus, researcher can conclude that there is a significant relationship between Qualification and awareness level of investors

## FACTORS DETERMINING INVESTORS DECISION

There are many factors that may be considered by the investors while investing in the commodity markets. The study has included only select factors that are considered as very important. The variables are used from “kotak commodity website”. The factors influencing the investors to invest in commodity are Diversification-: Commodities can diversify a portfolio. Commodity returns usually have low negative correlations among the returns of major asset classes. So often, when bonds and stocks fall, commodities rise. Sometimes, it may not be any connection between the returns at all. Factors that affect returns on stocks and bonds, for example, do not affect returns on commodities in the same manner. Besides, commodities may react differently from other assets in various economic and geopolitical situations.

The Table 3 shows the number of respondents opting for diversification of investments as their objective. Among the 100 respondents, 36 and 18 respondents have either agreed or strongly agreed. It can be inferred that investors invest to reduce risk by diversifying their investments in different classes of financial instruments. The other 15 respondents stated that they don’t invest to diversify.

**Table 3: Factors Preferred by Investors**

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Diversification	5	10	31	36	18
Inflation Protection	10	6	34	29	21
Hedge against Event Risk	10	14	31	26	19
Liquidity	5	10	31	38	16
Trading on Margin	9	10	36	27	18
High Return	5	8	35	38	14

**Inflation Protection:** Inflation has a different impact on commodities than financial assets like stocks and bonds. This is because inflation causes currency to depreciate. This erodes the real value of financial assets like stocks and bonds. Commodities, however, maintain their value and price even during high inflation. In this environment, investors can turn to hard assets such as gold and other precious metals. The Table 3 shows the responses of investors considering Inflation protection. Among the total respondents, 18 respondents have strongly agreed, while the 29, 34, 6 and 10 respondents have agreed, neither agreed nor disagreed, disagreed and strongly disagreed respectively. It can indicate that most of the responses invest in commodity to protect their funds against inflation.

**Hedge against Event Risk:** Events such as natural disasters, wars, and economic crisis can lead to depreciation of an investor's assets. This is an „event risk“. Such events affect financial assets like stocks and bonds negatively. They may also lead to a rise in the prices of certain commodities. For example, supply disruptions due to wars; it may raise the prices of commodities like oil. So, these commodities may act as a potential hedge against some event risks—a buffer against losses.

The Table 3 shows the responses of investors considering hedge against event risk. Among the total respondents, 19 respondents have strongly agreed, while the 26, 31, 14 and 10 have agreed, neither agreed nor disagreed, disagreed and strongly disagreed respectively. It can indicate that most of the responses invest in commodity considering to hedge against event risk.

**Liquidity:** - Unlike investment in assets like real estate, investment in commodity futures offers high liquidity. It is easy to buy and sell commodity futures. An investor can liquidate his position whenever required. The Table 3 shows the responses of investors considering liquidity. Among the total respondents, 16 respondents have strongly agreed, while the 38, 31, 10 and 5 have agreed, neither agreed nor disagreed, disagreed and strongly disagreed respectively. It can be indicated that most of the responses invest in commodity considering liquidity while investing in the commodity market.

**Trading on lower margin:** - An investor in commodity future needs to deposit a certain amount as a margin with the broker. The margin can be close to 5-10% of the total value of the contract. This is much lower than the margin required for other asset classes. Thus, the investor can take larger positions while investing less capital. This also helps increase the potential for high profits. The Table 3 shows the responses of investors considering Trading on lower Margin. Among the total respondents, 18 respondents have strongly agreed, while the 27, 36, 10 and 9 have agreed, neither agreed nor disagreed, disagreed and strongly disagreed in order of preference.

**High returns:** - Commodity markets are volatile. It can experience huge swings in prices. For example, war in a major oil-producing country like Iraq can cause oil prices to shoot up. Smart investors can take advantage of these price swings to make gains. Well-planned commodity investments can provide higher returns than investments in other assets. The Table 3 shows the responses of investors considering a high return for investments in commodity markets. Among the total respondents, 14 respondents have strongly agreed, while the 38, 35, 8 and 5 have agreed, neither agreed nor disagreed, disagreed and strongly disagreed respectively. It can indicate that more than half of the respondents invest in commodity expecting high returns.

## **FINDINGS OF THE STUDY**

The study found that most of the investors are male, fall in the group of 18-25; Income is less than 20000 per month and graduated. The study found that there is a significant association between age, occupation and awareness level of Investors. The age of investors may directly affect the level of awareness in reference to commodity markets. Further, there is no significant association between gender, income, occupation and awareness level of Investors.

The factors preferred by investors for investments in commodity market are diversification and liquidity, followed by higher returns, inflation protection and hedge against event risk. It is found that most of the sample investors prefer to reduce risk in investments and prefer to be safe. The least preferred criteria for investing in commodity market are “Trading on lower margin”.

## CONCLUSION

There is a need to create awareness among different sets of investors on the commodity market. The financial institutions to design awareness program and customize according to the different age groups. The participants in the commodity markets can market the potential return in commodity markets through advertisements in local channels, Newspapers by sending E-mail to present customer. Special campaign/ investor meeting should be conducted etc. The study suggests that the people who are least qualified can be informed the benefits of investments. The general thought among investor that only very wealthy people can take part in commodity market has to be changed and investors from every walk of the society have to encourage participating. It can be solved by aggressive campaigning by agents and marketing executive to educate and clarify the myths in their mind of investors.

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