



## Investment Behaviour of Investors towards Commodity Market

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### ABSTRACT

The study was undertaken to know the investment behaviour of investors towards commodity market. Commodity markets have become alternative investment class world over. Commodity markets are an ideal investment for today's modern financial scenario. The study evidences that the investors are risk averse on past performance. Their experience and knowledge in investment activity helps them to analyze the price variations at regular intervals in commodity market and make rational decision making. The impacts of various demographic factors on investment behaviour of investors towards commodity market have also been studied. For measuring various phenomena and analysing the collected data effectively and efficiency for ANOVA and t-test has been used to analyze the various demographic values. A Sample of 119 respondents is taken for this study.

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### Introduction

Commodity markets are markets where raw or primary products are exchanged. These are commodities are traded on regulated commodities exchanges. The commodities are bought and sold by entering into a contract to settle the transaction at some future date and at specific price is called futures market. The unique feature of futures market is that we do not have to actually hold the commodities in physical form or for that matter take the delivery in physical form. 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 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 form with National Spot Exchange is regulated by respective State Government.

### 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.

### Objectives of the Study

1. To understand the difference in the behaviour of investors with different profiles in commodity market.
2. To determine and to study the variations in investors behaviour with reference to the demographic profiles of the investors in commodity market.

### Hypothesis

1. There is an association between the demographic variables and investors behaviour in commodity market.

### Review of Literature

A large number of studies on the growth and financial performance of commodity markets have been carried out in the past, in the developed and developing countries.

**Easwaran and Ramasundaram (2008)**, the commodity/equity future market has two important economic functions, i.e., price risk management and price discovery. By taking equal but opposite positions in the futures market, both producer and consumer can manage the price risk in the spot market, which is usually called the hedging of price risk in commodities. Apart from these participants who aim the hedge, there must also be someone in the future market who aims risk aim to take risk and profit by doing so.

**Logeshwari and Ramadevi (2009)** advocated that a commodities market provides a platform for the investors for as well as hedgers to protect their economic interests as well as increase their investible wealth. Commodity prices are generally less volatile than the stocks. Therefore it is relatively safer to trade in commodities. But the volume being traded in commodity is much less than the stock market. This is because of the two reasons that the investors are less aware of the commodity market and their risk perception.

**Kabra, Mishra and Dash (2010)** studied key factors influencing investment behaviour and ways these factors impact investment risk tolerance and decision making process among men and women and those different age groups. They said that not all investments will be profitable, as investors will not always make correct investment decision over all period of years. Through evidence they proved security as the most important criterion; there is no significant difference of security, opinion, hedging in all age groups. But there is significant difference of awareness, benefits and duration in all age groups. From the empirical results they concluded that the modern investor is a mature and adequately groomed person.

**Nirmal and Balaji (2011)** investigated the investors' opinion about commodities future trading in India. They have observed that the commodity market was growing that great speed though derivatives trading commenced in the securities market only in June 2000. They further stated that institutional players are restricted to participate in commodities further trading in India leading to retail investors as the major players in this market. The research design chosen is descriptive and the data were collected using a questionnaire instruments by employing convenient sampling method. The statistical analyses were performed by using chi square, weighted average Method, One way ANOVA and Rank Correlation. The major outcome of this paper is that there is no significant relationship between the Gender and the Category of Investment. There is significant

difference between the perception and the saving percentage for the commodity futures.

**Harikanth.D & Pragathi.B (2012)** indicated that there is a significant role of income and occupation in investment avenue selection by the male and female investors. Geographical horizon of the investors, risks bearing capacity, educational level, age, gender and risk tolerance capacity etc, also impacts their selection.

**Elankumaran and Ananth (2013)** have attempted to identify the major factors that have greater influence on the individual investors' behaviour towards commodity market in India. They identified four major factors such as information asymmetry, objective knowledge, high return and low risk which are influencing the individual investors' behaviour in commodity market.

### Research Methodology

Research Design	Descriptive Research
<b>Sample Design</b>	
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	119 Investors were selected from around 1000 Investors in Dindigul, for this study.
Sampling Methods	Convenience sampling (Non-Probability Sampling)
<b>Data Collection Methods</b>	
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.

**H<sub>1</sub>: There is a significant difference between their investment behaviour on the basis of their demographic values in the MEX commodity market.**

### Inference

#### Age \* Investment Behaviour

The above table shows the ANOVA test for different investor's opinions about their investment behaviour on the basis of their age.

It is gathered from the above result about investor's opinion about their investment behaviour, the obtained 'F'-value indicates 7.754 and the 'p' value (0.000) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis accepted. So there is a significant difference between the investor's opinions about their investment behaviour on the basis of their age in the MEX commodity market.

#### Educational Qualification \* Investment Behaviour

The above table shows the ANOVA test for different investor's opinions about their investment behaviour on the basis of their educational qualification.

It is gathered from the above result about investor's opinion about their investment behaviour, the obtained 'F'-value indicates 2.707 and the 'p' value (0.049) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis accepted. So there is a significant difference between the investor's opinions about their investment behaviour on the basis of their educational qualification in the MEX commodity market.

### Analysis Results Anova

Table 4.1

Age * Investment Behaviour							
Age	N	Mean	Std. Deviation	df	Mean Square	'F' Value	Sig. Value
Below 30 Years	55	15.78	2.733	3	43.868	7.754	.000
31 - 40 Years	47	13.72	1.986	115	5.658		
41 - 50 Years	13	13.38	1.938	118			
Above 50 Years	4	14.75	2.630				
Total	119	14.67	2.575				
Educational Qualification * Investment Behaviour							
Educational Qualification	N	Mean	Std. Deviation	df	Mean Square	'F' Value	Sig. Value
UG degree	75	14.99	2.638	3	17.198	2.707	.049
PG degree	24	14.00	2.638	115	6.353		
Diploma/ITI	11	13.18	1.537	118			
Below Schooling	9	15.67	2.000				
Total	119	14.67	2.575				
Occupation * Investment Behaviour							
Occupation	N	Mean	Std. Deviation	df	Mean Square	'F' Value	Sig. Value
Govt. Employee	18	13.22	1.896	3	29.254	4.844	.003
Private Employee	24	15.33	3.046	115	6.039		
Professional	36	15.56	2.535	118			
Self Employee	41	14.15	2.209				
Total	119	14.67	2.575				
Annual Income * Investment Behaviour							
Annual Income	N	Mean	Std. Deviation	df	Mean Square	'F' Value	Sig. Value
Less than 100000	26	15.77	2.673	3	68.653	13.701	.000
100001-300000	32	15.13	2.709	115	5.011		
300001-500000	24	15.83	1.606	118			
Above 500000	37	12.76	1.754				
Total	119	14.67	2.575				
Investment Experience * Investment Behaviour							
Investment Experience	N	Mean	Std. Deviation	df	Mean Square	'F' Value	Sig. Value
Below 3 Years	20	15.20	3.270	3	43.964	7.774	.000
3 - 4 Years	44	15.73	2.481	115	5.655		
4 - 5 Years	20	14.40	2.210	118			
Above 5 Years	35	13.20	1.623				
Total	119	14.67	2.575				

Source: Primary Data

### Occupation \* Investment Behaviour

The above table shows the ANOVA test for different investor's opinion about their investment behaviour on the basis of their occupation.

It is gathered from the above result about investor's opinion about their investment behaviour, the obtained 'F'-value indicates 4.844 and the 'p' value (0.003) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis accepted. So there is a significant difference between the investor's opinions about their investment behaviour on the basis of their occupation in the MEX commodity market.

### Annual Income \* Investment Behaviour

The above table shows the ANOVA test for different investor's opinion about their investment behaviour on the basis of their annual income.

It is gathered from the above result about investor's opinion about their investment behaviour, the obtained 'F'-value indicates 13.701 and the 'p' value (0.000) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis accepted. So there is a significant difference between the investor's opinions about their investment behaviour on the basis of their annual income in the MEX commodity market.

### Investment Experience \* Investment Behaviour

The above table shows the ANOVA test for different investor's opinion about their investment behaviour on the basis of their investment experience.

It is gathered from the above result about investor's opinion about their investment behaviour, the obtained 'F'-value indicates 7.774 and the 'p' value (0.000) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis accepted. So there is a significant difference between the investor's opinions about their investment behaviour on the basis of their investment experience in the MEX commodity market.

### T - Test

Table 4.2

Gender * Impact of Occupational Stress						
Gender	N	Mean	Std. Deviation	'F' Value	df	Sig. Value
Male	70	14.14	1.980	17.917	117	.007
Female	49	15.43	3.109			

Source: Primary Data

**H<sub>1</sub>: There is a significant relationship between their investment behaviour on the basis of their gender group in MEX commodity market.**

It is subject from the above result about investor's opinion about their investment behaviour, the obtained 'F'-value indicates 17.917 and the 'p' value (0.007) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis accepted. So there is a significant difference between the investor's opinions about their investment behaviour on the basis of their gender in the MEX commodity market.

### Findings

➤ It is gathered from the above result about investor's opinion about their investment behaviour, the obtained 'F'-value indicates 7.754 and the 'p' value (0.000) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis accepted. So there is a significant difference between the investor's opinions about their investment behaviour on the basis of their age in the MEX commodity market.

➤ It is gathered from the above result about investor's opinion about their investment behaviour, the obtained 'F'-value indicates 2.707 and the 'p' value (0.049) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis accepted. So there is a significant difference between the investor's opinions about their investment behaviour on the basis of their educational qualification in the MEX commodity market.

➤ It is gathered from the above result about investor's opinion about their investment behaviour, the obtained 'F'-value indicates 4.844 and the 'p' value (0.003) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis accepted. So there is a significant difference between the investor's opinions about their investment behaviour on the basis of their occupation in the MEX commodity market.

➤ It is gathered from the above result about investor's opinion about their investment behaviour, the obtained 'F'-value indicates 13.701 and the 'p' value (0.000) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis accepted. So there is a significant difference between the investor's opinions about their investment behaviour on the basis of their annual income in the MEX commodity market.

➤ It is gathered from the above result about investor's opinion about their investment behaviour, the obtained 'F'-value indicates 7.774 and the 'p' value (0.000) is lesser than 0.05. So, the null hypothesis is rejected; the alternative hypothesis is accepted. Hence proposed hypothesis accepted. So there is a significant difference between the investor's opinions about their investment behaviour on the basis of their investment experience in the MEX commodity market.

#### **Suggestions**

➤ Now investors has to have interest on investment and know about trading in market including commodity market

➤ 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 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.

➤ The present trend of commodity markets should be continuously informed to the investors through telephone or other duties

➤ The investors' has to be encouraged with new schemes in the commodity market.

#### **Conclusion**

The investor has their own choices and preferences in making decisions for investment. Investors can take their own steps in analyzing the market conditions and can be advised to make a portfolio and investment analysis of their investment. Majority of the respondents were found to be overconfident, optimistic, risk tolerant in terms of their behaviour in commodity market. 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 investors should be given all the information regarding their investment and benefits or the drawbacks of the investments.

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