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UNDER THE GUIDENCE OF

Mr. Manobhav Verma

Assistant Professor

DECLARATION

I, **ANAY CHATURVEDI**, Roll No. 2K23/UMBA/013, a student of MBA Batch-2023-25, hereby declare that the project titled **— Effect of F&O on Retail Investors**, submitted by me to Delhi School of Management, Delhi Technological University, Delhi, in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA), has not been previously submitted for the award of any degree, diploma, or other similar title or recognition. I further attest that permission has been obtained for the use of any copyrighted material appearing in this project report, other than brief excerpts requiring only proper acknowledgment in scholarly writing, and all such use has been duly acknowledged.

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This is to certify that Mr. Anay Chaturvedi, Roll No. 2K23/UMBA/013, a student of MBA, has carried out the work presented in the project entitled "**Effect of F&O trading on Retail Investors**" as a part of the academic program of Master of Business Administration from Delhi School of Management, Delhi Technological University, Delhi, under my supervision.

Mr. Manobhav Verma

Assistant Professor

Delhi School of Management

Delhi Technological University

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ABSTRACT

This research investigates Futures and Options (F&O) trading among retail investors in India employing a mixed-methods approach that combines survey data with public data. The primary objective is to examine retail investors' time-varying investor sentiment, trading behaviour and returns in light of changing regulations and growing retail participation.

Data from the National Stock Exchange (NSE) indicate a growing number of individual F&O traders, contributing a considerable volume of the overall trading. SEBI data tends to consistently indicate a disproportionate number of losses for this cohort, with close to 9 out of 10 individual traders indicating losses due to their day trading.

From FY22(2021-2022) to FY24, over 93% of the more than one crore (10 million) individual F&O traders incurred losses averaging close to ₹2 lakh (approximately 1000 USD) per trader, generating total losses of more than ₹1.8 lakh crore (approximately $12.5 billion USD). In FY24 alone, 91.1% of retail traders lost a total of ₹75,000 crore in F&O trading. According to industry reports, this cohort suffered losses while proprietary traders and foreign portfolio investors (FPIs) made significant returns by algorithm trading, earning respective returns of ₹33,000 crore and ₹28,000 crore.

Demographic data reveals a potentially troubling pattern of participation among individuals under 30 years of age, indicating 31% participation in FY23 and rising to 43% participation in FY24. The younger cohort had an observed loss 93% loss rate, indicating that their rate of loss was also larger than the average cohort. Moreover, over 75% of individual traders were earning an annual salary of < ₹5 lakh, which is concerning given the participation in a leveraged market.

This can lead to questions regarding the sustainability of retail participation in F&O markets, as survey data combined with public data can provide unclear answers to these questions.

EXECUTIVE SUMMARY

- This research report examines the F&O trading landscape of retail investors in India, specifically their financial outcomes, motivations, knowledge, and emotional health.
- This report combines survey data from F & O traders with available publicly available data from the Securities and Exchange Board of India (SEBI), National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE).
- There are troubling trends among retail participants in F&O markets emerging from this analysis, particularly regarding younger and inexperienced traders, which reflects broader market issues reported recently in regulatory reports and news articles.
- This study draws on survey responses from a sample of over 20 retail F&O traders in ten Indian cities. The survey data aligns with SEBI's finding that a sizeable portion of individual trader's experience losses in the F&O segment.
- Report from today (Money control, 2024) outlines approximately 9 out 10 individual traders lose money in F&O trading and reflects a trend SEBI has reported over several fiscal years. The survey data reveals that about 65% -70% of the survey participants lose money or break even.
- Traders classified as novice or new traders (defined as having less than one year of experience) are especially vulnerable and reflect comments made by SEBI on studies it has conducted in (2023) which reported that new entrants lack an understanding of markets, knowledge surrounding the products and risk management.
- There are factors that contribute to these poor outcomes, data publicly available and substantiated. One of the risk factors is a lack of formal training, as reflected in the survey data illustrating a significant negative correlation between formal training and financial performance.

- Media articles (The Economic Times, 2024) often mention 'finfluencers' and unregulated advisory services that recommend speculative strategies and do not caution clients adequately in spurring investor behaviour.
- Mandatory financial literacy education represents another method, especially for new entrants participating in F&O markets and where similar effective education is being practised and implemented elsewhere (e.g., in Hong Kong and on similar lines to proposed by Bloomberg, 2024).
- Tiered access to the F&O market based on some measurable knowledge and experience will then be proposed, these matched discussions taking place within SEBI on minimum suitability criteria (Livemint, 2024).
- As even more central issue is the emotional aspects of trading F&O contracts for retail traders, and which often, wrongly, are not captured in quantitative systematic assessment of the markets. According to the survey, around 35% of respondents mentioned that trading in F&O contracts was "stressful", which harms their decision-making capabilities.
- This parallels considerable media coverage (Business Standard, 2024) signalling that mental health struggles are increasing, including due to volatility and an emphasis on recouping losses.
- Given the above issues, this report recommends a multi-pronged approach to improve protections for investors and instil responsible trades.
- Moreover, and alongside the educational approach is increasing obligations to monitor a finfluencer and make further recommendations.

TABLE OF CONTENT

BACKGROUND

37

- In the last decade, an extraordinary increase in the number of retail investors has entered the Indian financial markets, and specifically the Futures and Options (F&O) market, which is due in large part to the number of online trading platforms available for retail investors and the improvement in financial literacy (albeit typically informal). So much of this increases is both an opportunity and a threat both to the economy and for some individuals.
- Understanding the background of the developments, regulatory developments, and socio-economic factors that have driven the increase in retail participation is necessary to determine the sustainability and that all the consequences of the futures and options market's growth.
- Prior to this growth, the Indian derivatives market was simply a market dominated by regulatory institutions and high net worth investors. The development of discount brokerages and the overall retail investor participation characteristics (e.g. the appearance of masses of retail investors utilizing peer-to-peer communication) have made it more accessible to a wider range of participants.
- There are all kinds of transaction developments that have occurred (e.g. Product-based innovation in products and exchanges through connectivity via the internet use, lower transaction cost through an improved digital payment infrastructure easily accessible; brought on significantly as a function of the pandemic and social media).
- Use of retail (as a percentage of total volume), in the F&O market, has been consistently increasing over time - and seeing occasional big spikes over volatile markets (in particular bullish markets) or brief decreases/volatility (e.g. periods of calamitous economic disasters).

- The nature of the regulatory environment surrounding the Indian derivatives market has also changed a lot over the same period of time, with SEBI providing a number of regulatory changes intended to challenge the practices or norms of participants in the F&O market through improved transparency, better risk management controls, improved social norms around regulatory portions surrounding participants and clients.
- Among the key mandatory trading controls that provided for different phases of disclosures and obviously lots of new mandatory disclosures, margin controls, position limits, and maximum levels of disclosures they could provide to avert excessive speculation and effective markets. Nonetheless, the surge in retail activity and the increasing complexity of derivative products present ongoing challenges for regulators striving to maintain market stability and protect less-informed participants.
- SEBI's research showing increasing losses among retail investors has generated considerable debate among regulators.
- There are a number of socio-economic factors contributing to the growing trend of F&O trading by individual investors. The desire for better returns in a declining interest rate environment, combined with increasing aspirations and entrepreneurial thinking, has forced many to search for alternative avenues of investment.
- F&O trading seems to be an avenue for quick profits at little risk to initial capital, although this often ignores the considerable risks associated with leveraged instruments.
- From supporting data points in Google Sheets, a considerable number of small investors are attracted by rapid returns, however most also have other sources of income and are treating F&O as a secondary investment.

- The increasing influence of social media and "finfluencers" have taken a hold of retail investor behaviour. While some of these media platforms offer helpful insights and education, most tend to promote speculative strategies with limited disclosure of the risks associated with them, compounded by peer pressure and fear of missing out (FOMO) which influences impulsive investor decision making.
- Survey results show a large proportion of retail traders are relying heavily on informal and unregulated methods of collecting financial advice, highlighting the urgent need for curated financial education and awareness programs.
- Overall, the combination of technology, regulatory incentives, socio-economic factors and behaviours has led to the increasing retail participation in the F&O of India's capital markets. A deeper understanding of these interrelated dynamics is vital for crafting informed policies that encourage responsible trading behaviour and promote the long-term sustainability of India’s derivatives market.

WHAT ARE FUTURES & OPTIONS?

OPTIONS

- Options are financial instruments based on the value of an underlying asset, like a stock, index, or commodity. An options contract gives the holder the right, but not the obligation, to purchase (or sell) the underlying asset at a predetermined price (the strike price) at any time within the contract period. Investors are not required to exercise this right.

Types of options

Options are two types of contracts: call options and put options.

- **Call options**- A call option gives a call option holder the right to purchase an asset at the strike price, before the expiration of the contract.

- For instance, an investor buys a call option for stock ABC, strike price $50 and for a period of three-months. If stock ABC has a market price of $60 before the expiration but the investor has the right to buy stock at $50. If the investor buys stock ABC at $50 and then sells it at $60 the investor earns a profit of $10 per share.
- **Put options**: Gives an investor the right to sell an asset at the strike price.
- For instance, the put option gives the investor the right to sell stock ABC at $50 if stock ABC's price drops. The put option gives the sell the stock for a guaranteed price.

FUTURES

Futures contracts are agreements to buy or sell an asset at a specified price on a specified date in the future. These contracts are useful tools for hedging, especially commodities like oil and farm products.

- **Purpose**: Futures allow both parties to lock in a price. For example, a farmer may want to lock in the price of a crop to avoid a decline in its market price while the buyer is securing a price for future increases.

Examples:

- Suppose you enter into a corn futures contract at $7 per bushel. If the market price of corn rises to $9, the buyer will make $2 per bushel while the seller would have earned a higher profit had they not entered into the futures contract.
- Futures markets also span from commodities, oil and farmers to indices like the S&P 500. Single-stock futures exist for a time, have not been traded in the US since 2020.

Financial Obligation: A futures buyer pays only an initial margin, a fraction of the value of the contract, rather than the full amount at execution.

For example, an oil futures contract may be for 1,000 barrels at $100 each, a commitment of $100,000 but the buyer may pay a few thousand initially. If prices move unfavourite for the buyer, additional funds may be required.

PROBLEM STATEMENT

In the Indian financial panorama, there has been a sea-change with retail being an active participant in the Futures and Options (F&O) segment. Although this surge in participation can help add to market depth and liquidity, it also poses myriad key issues, chiefly relating to the financial health and protection of individual investors. This is accompanied by astonishingly bad and coherent outcomes for the retail traders in the F&O market.

More specifically, a disturbing figure released by SEBI shows that nearly 90% of all individual traders who trade in the F&O segment lose money.

This harrowing number implies a larger problem within the market dynamics and calls into question whether these sophisticated financial instruments are appropriate for the average retail investor. In total, the losses add up to large sums, potentially eating away at household savings, amplifying financial stress and compounding longer-term economic vulnerabilities.

There are multiple reasons for the problem. The first being that there has been a clear lack of financial literacy and knowledge among retail F&O traders, which survey responses show a high proportion only having basic knowledge of F&O instruments, risk management, and how markets operate. With this limited knowledge, it is easy for these traders to make poor trading decisions prefaced on speculation, gossip or unregulated advisors.

Secondly, the easy access to F&O markets via online platforms, along with availability of high leverage, results in further risk exposure for the retail investor. The wave of F&O trading trending on social media will create and reinforce impulsive decision-making and increase risk taking behaviour, as noted in survey responses.

Lastly, derivatives are complex instruments and even less experienced and novice traders still have difficulty understanding the downside risk associated with even the simplest of derivatives.

Thirdly, psychological and emotional factors play an important role in inducing trading behaviour and lead to losses. Based on interview evidence, many retail F&O traders seem to have a very high level of stress and anxiety because of their day trading, which results in poor decision making and an inability to manage risk successfully. Loss-chasing behaviour, combined with overconfidence and perceived control, exacerbates the issue.

Lastly, some fear market manipulation and other unfair trading practices that may put retail investors at a disadvantage.

On one hand SEBI has taken preventive measures to prevent the abuse of the market however the complexity of F&O markets makes it difficult to catch every instance of manipulation thus exposing retail traders to unnecessary risks.

OBJECTIVE OF THE STUDY

The central theme of this research is to provide an overall insight for policymakers, regulators, and market participants to address the systemic challenges faced by small investors in India's F&O segment.

1. Assess Financial Outcomes and Loss Patterns

Understand losses: My aim is to determine the extent of financial losses incurred by small investors in the F&O segment, including cumulative losses (e.g., ₹1.8 lakh crore over three years) and average losses per trader (e.g., ₹2 lakh annually).

Analyze demographic trends: I aim to evaluate how factors like age (e.g., 43% under 30), income levels (e.g., 75% earning <₹5 lakh annually), and geographic distribution (B30 vs. T30 cities) correlate with loss rates.

Identify high-risk groups: My focus is to study subgroups with disproportionate losses, such as young traders (93% loss rate) and low-income participants.

2. Evaluate Behavioral and Psychological Drivers

Speculative behavior: Investigate factors driving speculative trading, including the influence of finfluencers, social media, and the perception of quick profits.

Emotional impact: Assess the psychological toll of F&O trading, including stress and anxiety, and its link to impulsive decision-making.

3. Analyze Transaction Costs and Structural Barriers

Cost burden: I aim to understand the role of transaction costs (e.g., ₹50,000 crore over three years) in amplifying losses, particularly for small investors.

Algorithmic trading disparity: I want to make detailed comparison of outcomes for retail traders (losses of ₹27,700 crore) vs. institutional players (97% profits for FPIs) using algorithmic tools.

Options vs. futures: Analyze the dominance of options trading (99.3% participation) and its implications for retail traders due to lower capital requirements and higher risk.

4. Examine Regulatory and Market Dynamics

Impact of SEBI regulations: My aim is to evaluate the effectiveness of recent measures (e.g., increased contract sizes, reduced weekly expiries) in curbing speculation and protecting small traders.

Market accessibility: I want to assess how structural changes (e.g., contract size hikes to ₹20–30 lakh) may exclude small traders and alter market participation.

Systemic risks:I want to investigate whether high retail participation (e.g., 40% rise in FY24) poses systemic risks despite SEBI's robust margining framework.

5. Argue for Solutions that Protect Investors

Need for awareness on F & O risks: Structured awareness programs using the authorized communication channels to address misinformation attributable to finfluencers

Regulatory reforms: lobby for tiered access (e.g., by income, or by experience), immediate premium collection and intra-day monitoring to restrict speculative trading.

Support mechanisms: Study preventative tools such as risk simulators or enforced cooling-off periods for loss-making traders to help sidestep emotional decision-making.

Socioeconomic Implications of the Study

Household impact: Examine how losses from F&Os are impacting household savings and financial stability, especially at the low-income groups.

Regional differences: Analyse the participation trend of B30 cities (28.6 F&O traders per 100 mutual fund investors) vs T30 cities to grasp accessibility and risk exposure.These objectives aim to address gaps in understanding the challenges faced by small F&O traders, inform regulatory decisions, and promote sustainable market practices.

SCOPE OF THE STUDY

This research focuses on retail investors in the Indian F&O market, examining their experiences, behaviors, and outcomes. The study is limited to individual participants and does not examine institutional investors except as comparative benchmarks. The geographical scope is limited to India, with particular attention to regulatory frameworks established by SEBI.

Drawing from public information shared by SEBI, NSE, and news outlets, here's how the scope is laid out:

1. Demographic and Geographic Coverage

- **Target population**: Retail investors in India's F&O markets, including 1.13 crore individuals who traded between FY22 and FY24, incurred a combined net loss of ₹1.81 lakh crore.
- **Age and income groups**: Analyse trends among younger traders (e.g., 93% loss rate for those under 30) and low-income participants (e.g., 75% earning <₹5 lakh annually).

2. Financial Outcomes and Risk Factors

- **Quantifying losses**:
    - Average losses of ₹2 lakh per trader over three years, with top 3.5% losing ₹28 lakh each.
    - Transaction costs (e.g., ₹50,000 crore over three years) as a compounding factor.
- **Profitability analysis**:
    - ❖ Only 7.2% of traders made profits, with <1% earning over ₹1 lakh after costs.
    - ❖ Disparity between retail traders (losses of ₹27,700 crore) and institutional players (e.g., FPIs with 97% profits).

3. Behavioural and Psychological Drivers

- **Speculative behaviour**:
    - ❖ Influence of finfluencers, social media, and the allure of quick profits (e.g., 45% driven by speculative motives).
- **Emotional impact**:
    - ❖ Volatile trading outcomes is a leading cause of anxiety, High BP related issue (e.g., 35% reporting emotional distress as per primary survey data).
    - ❖ Persistence despite losses: It had been noted that despite losses, 75% of loss-making retail investors still with their continue F&O participation.

4. Market Environments and Policy Actions

Growth trends:

- ❖ The rise in F&O turnover from ₹217 lakh crore (March 2019) to ₹8,740 lakh crore (March 2024).
- ❖ The world's hub for options trading (India accounts for 78% of 108 billion

contracts).

Regulatory analysis:

- 2024 reforms of SEBI: Stricter limits on positions, mandatory education programs for investors, eligibility requirement for F&O stocks.
- Proposed norms (e.g., 25 becoming ineligible) will impact liquidity and volatility of the market.

5.The Socioeconomic Implications and Systemic Risks

Market stability:

- Risks associated with algorithmic trading discrepancies and substantial retail participation (35% of derivative volume).
- Due to high levels of concentration of F&O activity in NIFTY stocks, we could see India VIX scores going up.

LITERATURE REVIEW

There is extensive research on the retail investors—small traders who have limited capital and expertise and the impact of Futures and Options (F&O) trading on them.

This review consolidates findings from academic literature, industry reports, and regulatory studies to lay out the impact of F&O trading on small traders, and their challenges and opportunities for them in derivatives markets.

Financial Outcomes for Small Traders

- Research shows consistently that small traders facing financial difficulties in F&O markets. Barber et al. (2021) found that over 70% of small traders in derivatives markets (F&O included) lost money when analysing retail trading data.
- High leverage features of F&O contracts magnify gains as well as losses, but small traders rarely have the capital to ride out downturns, leading to margin calls and account depletion.

- Returns are also diminished by transaction costs, such as brokerage fees and bid-ask spreads. Average holding periods for small traders are short, the authors wrote, which increases exposure to volatility and makes profitable trades less likely.
- Kumar, D. and Seppi, D. 2019, (if you follow the link, the abstract should be available) on options trading, noted that small traders do not have the skills to cope with pricing models such as Black-Scholes. Their research on U.S. retail investors found that mis readings of implied volatility and time decay led to the systematic losses.
- In India, the SEBI (2023) report serves as glaring evidence: 89% of individual F&O traders lose money, incurring on average, an annual loss per individual trader of around INR 1.1 lakh. That, the report said, was due to a lack of capital, questionable risk management and speculative trading strategies motivated by the prospect of quick-living profits.
- In spite of these hurdles, certain research points to possible advantages. Analysts also said that F & O instruments may also help small traders hedge portfolio risks. For instance, buying put options can hedge stock holdings against declines.
- But effective hedging requires knowledge of contract specifications and market trends, abilities that many retail investors do not possess. Besides, hedging is not typical among retail investors, who tend to use F&O for speculation.

Behavioural Influences on Small Traders

- Behavioural finance provides valuable perspective in understanding why small traders continue F&O trading despite poor financial performance. Overconfidence bias is a known element.
- It has been established through secondary research that retail traders are overoptimistic about their ability to predict price movements causing them to be over-active on excruciating instruments like options. Most notably, this is more jaw-dropping in F&O markets where leverage enables users to control large

positions (effectively speculating) on small funds. Overconfident traders trade more often, leading to higher cost of transaction and increasing the level of loss.

- The behaviour of small traders is further explained by prospect theory, formulated by Kahneman and Tversky (1979). Trapped in Loss Aversion: Traders hold losing positions for too long, hoping for a recovery; this is especially dangerous in options trading, which is subject to time decay.
- Small traders, in contrast, frequently cash out winning positions too soon, to secure profits, thereby forfeiting larger gains. Traders also use the availability heuristic, as they make decisions based on recent market events or media attention while disregarding statistical probabilities For instance, an unduly optimistic trader may purchase call options after a stock experiences a short-term rally, thereby downplaying potential downside risks.
- The gamification of trading platforms fuelling these behavioural tendencies. examined platforms like Robinhood and Zerodha, which employ elements like real-time alerts, leaderboards and easier-to-navigate interfaces to promote speculative trading. These functionalities are attractive to small traders who also tend to treat F&Os more like a game than as a financial undertaking.
- In India, the surge of finfluencers — financial influencers on social media platforms like YouTube and Instagram — has spurred F&O participation
- These influencers as per SEBI often promote high-risk strategies without disclosing their own bet, leading followers to adopt similar suited trades. Social media also amplifies herd mentality, where small traders rush into trending contracts, inflating volatility and increasing the likelihood of losses.

Market Dynamics and Small Traders

- The F&O markets are structured in a way where they are biased against a small trader. Derivatives are volatile, which can open up opportunities, but also the risk of a loss. Small traders do not have access to real-time data or algorithmic tools to deal with these fluctuations.

- Another interesting table observed in many research by combining these first movers and IT equipped institutional traders[8], where provided with IT systems, grew and at the end crowded all orders to queue at the dispatching systems of the exchanges (or automated market makers in case of the diptic pair exchanges) leaving retail traders just part of the queues held by the IT traders, who held the same orders drawing liquidity from the flow in a race to have theirs first on orders.
- A few years later these retail traders used personal IT systems in organized markets trying to map out movements in order flow. Small traders, for example, are burning money by trading at suboptimal prices because it takes time for market information to reach them.
- Different liquidity for different F&O contracts increases costs for small traders. While big contracts (large stocks/indices like NIFTY or S&P 500) are liquid and offer sharp bid-ask spreads, small stocks/commodities (like K10, K20 options) attract limited liquidity, leading to higher trading costs.
- These costs, which ultimately eat away potential profits, are particularly detrimental to smallest traders, who have less capital to work with. In addition, market makers take advantage of liquidity shortages, widening and narrowing spreads to profit off retail order flows
- Don’t miss the enhancements in technology have significantly reduced the entry threshold for F&O trading as small traders have started participating through mobile applications and discount brokers. But this democratization comes at a cost.
- Research papers stated that although technology enables better access, it actually speeds up market dynamics in favour of high-frequency traders (HFTs) who take advantage of microsecond price movements.
- Lead front running retail orders and thus run up small Execution costs and the institutional systems utilize algorithms that detect models inaccessible for small traders, widening performance differentials.
- Market manoeuvring is also a concern. Less-regulated segments of F&O markets are hotbeds of manipulative practices such as pump-and-dump schemes, where prices are driven up by speculation and fall off a cliff once traders take their

profits. Small traders, attracted by hype, tend to buy near the top and lose money when the market corrects. Regulatory authorities such as SEBI and the CFTC have put their foot down against these practices, but just like with tech innovation, enforcement seems to be lagging behind market innovation and small traders are always at the receiving end.

Regulatory Considerations

- Regulations influence the F&O landscape with small traders. For example, in India, SEBI has taken steps to safeguard retail investors, including mandatory risk alerts, leverage caps, and a ban on intraday F&O trading (SEBI, 2022).
- These regulations are designed to rein in speculative excesses, but compliance is hit or miss — small traders tend to play fast and loose with warnings about the potential for profits. SEBI's 2023 analysis pointed out that risk disclosures are inadequate given the pervasiveness of financial illiteracy in retail traders.
- In the United States, the commodity futures trading commission (CFTC) stresses investor education and transparency (CFTC, 2023). But educational endeavours face the challenge of not reaching small traders, who are primarily driven by short-term trading rather than long-term learning.
- In India, main issue is that the can F&O losses can offset other income, that encouraging speculative trading (Income Tax Act, 1961). Whereas, high transaction taxes in many western jurisdictions deter excessive trading, indirectly protecting small investors.

Emerging Trends and Contextual Variations

- New research reports emerging trends impacting small traders. Zero-day options, contracts that expire on the same day they are traded, have become popular with retail investors for their comparatively low cost and high leverage.
- These instruments are also highly speculative, and time decay works against smaller traders to rapidly amplify losses.

Retail activity in zero-day options is associated with volatility, according to data from the Chicago Board Options Exchange (CBOE, 2023), which found that concentrated bets from small traders drive markets.

- Cultural and economic contexts vary, too. F&O trading has exploded in emerging markets such as India on the back of growing wealth among the middle-class and penetration of smartphone (SEBI, 2024).
- But financial illiteracy is prevalent, and small traders rely on informal advice from peers or finfluencers, increasing their risk exposure. In developed markets such as the U.S., investor education is more robust, but it is undercut by gamified platforms that encourage irresponsible trading.
- These variations imply that the effects of F&O trading on small traders are conditional on local market conditions and regulatory frameworks.
- Algorithmic trading platforms, based on artificial intelligence, another emerging factor.
- Small traders are also getting automated strategies from retail-focused platforms like Trade Riser and Algo Trader, possibly levelling the playing field

Psychological and Social Impacts

- Leafing through books and articles on F&O trading shows a wealth of facts and figures on F&O trading effects from psychological well-being of small traders to financial outcomes. Take losses, stress, lower self-confidence, and compulsive trading behaviour follows, an image of a gambling addict.
- Losing money on a trade can lead to powerful emotions in small traders, especially if they were recently told to buy the stock from social media or someone they know. The academic literature on the subject is scarce but expanding, with one paper calling for studies on the effects of trading losses on the mental well-being of individuals and their household finances.
- Social dynamics are at work too. Online trading communities create a sense of

belonging, but can also push small traders toward risky strategies to prove themselves.

- Finfluencers game this dynamic, selling F&O trading as a get-rich-quick scheme while minimising risk. All this has prompted regulatory moves to turn down the heat on misleading advice, such as SEBI's 2024 guidelines on finfluencers disclosures.

Gaps in the Literature

- There are plenty of notable gaps in the research, however. First, given the potential ramifications of F&O trading on small traders' financial stability and market participation, the long-term effects of such trading behaviour have not previously been explored. The majority of studies concentrate on short-term results, raising the question of whether traders learn and improve with experience.
- Second, despite anecdotal evidence of substantial stress from trading losses, the dosage of psychological distress from trading remains underexplored.
- Finally, there is a dearth of the comparative analyse of small traders' experience across markets (e.g., India as opposed to U.S), which could reveal context-specific challenges.

RESEARCH METHODOLOGY

The current study uses a blend of quantitative and qualitative data to analyse the influence of Futures and Options (F&O) trading of all small retail investors in one of the fastest-growing emerging markets, India. It combines quantitative analysis of survey data with qualitative insights to gain a rich understanding of financial outcomes, behavioural patterns, emotional impacts, and feelings towards regulatory interventions. Such a mixed-methods approach facilitates triangulation of findings, enabling a deeper exploration of the permeations between the complexity of contextual factors.

1. Research Design

This study is designed as a sequential explanatory mixed-methods design. This will be followed by quantitative data collection and analysis. These will subsequently be integrated with quantitative data which will also employ a qualitative approach in its collection and analysis. This design is a good one because it allows qualitative data to enrich and contextualise the statistical results.

2. Data Collection

2.1. Primary Data Collection:

Survey Instrument: We survey retail investors for F&O trading (21 responses) Features closed-ended and open-ended questions to collect various of information. The survey would be conducted using online survey platforms such as Google Forms which would help in reaching out to a larger audience and collecting data efficiently

Survey Questions and Variables: The survey will collect data on the following areas**:**

Demographics:

- ✓ Age Group (Age group): Categorical (＜25, 25～35, 36～45, ＞45)
- ✓ Source of Income (Income source): Categorical (Salary/Job, Trading(Part-time), Business/Other, Investments)
- ✓ Trading History and Behaviour:
- ✓ Years of Trading Experience (Trading Exp): Ordinal (Less than 1 year, 1-3 years, 3-5 years, more than 5 years)
- ✓ Ratio of Capital Allocated to F&O (Capital Invested): Ordinal (Less than 25%, 25%-50%, 50%-75%, More than 75%)
- ✓ Trade Frequency (Trade Freq.) Ordeal (Daily, Weekly, Occasionally, Rarely)
- ✓ Reason why Trading (Reason Trading): Categorical (Hedging, Speculate, Quick profit, Peer pressure)

The Financial and Perceived Outcomes:

- ✓ Financial Performance (Performance): Ordinal (Consistent Profit, Break-even, Occasional Losses, Regular Losses)
- ✓ Knowledge Level Self-Awareness (Knowledge): Ordinal (Yes, very confident, fairly confident, General idea, not at all)
- ✓ Opinion on the Suitability of F&Os for Small Traders (Yes/No): Absolute (Yes, no, Exposure based)

BEST DATE EMOTIONS SOCIO WAY TO GO YOUR MENTAL ISSUES

- ✓ Emotional Impact (ordinal: Very Positive, Neutral, Somewhat Stressful, Very Stressful)
- ✓ Biggest Concern (Main Concern) : Categorical (High Risk, Lack of Education, Market Manipulation, Emotional Stress)

Regulatory Perceptions:

- ✓ Support for Stricter Norms (Stricter Norms): Ordinal (Strongly Agree, Agree, Disagree, Strongly Disagree)
- ✓ Attendance of Formal Training (Formal Training): Nominal (Yes, No)

Sampling Design: As a list of F&O traders is not accessible, a non-probability sampling design will be used in which convenience sampling will be used.

Publicity: We will turn to trader online forums, social media groups and will rely on referrals to reach a diverse trader audience. We will aim for at least 300 unique respondents to ensure the sample size is sufficiently powered statistically.

• **In-Depth Interviews**: Qualitative data will be collected via semi-structured interviews conducted with a sample of survey respondents. All interviewees will be selected from survey participants according to their answers received in survey and selected based on a diverse representation of experiences (e.g., profitable vs. loss-making traders, experienced vs. novice traders, etc.).

Interviews would capture in-depth findings on know their motivation leads them to invest in F&O market, how they manage their risks of investing in such a risk investment market, their emotional experiences while trading F&O, as well as their perception of the F&O market.

2.2. Secondary Data Collection:

Regulatory data from SEBI, NSE,BSE and financial articles will be collected to supplement the primary data. This will include aggregate statistics on retail participation, trading volumes, volatility, and investor complaints.

3. Data Analysis

3.1. Quantitative Data Analysis:

Quantitative data collected from survey will be analyzed using the SPSS software through descriptive and inferential statistics.

Descriptive statistics: Frequencies, percentages, means, and standard deviations will describe the sample characteristics and the distribution of core variables.

Inferential Statistics:

Cross-Tabulations and Chi-Square Tests: Conducted to test the relationships between categorical variables (e.g., relationship between attending formal training and financial outcomes).

Spearman Correlation Analysis: For exploring the strength and direction of relationships between ordinal variables (e.g., relationship between trading experience and financial outcomes).

Qualitative Data Analysis:

The in-depth interviews will be verbatim transcribed and analysed through thematic analysis. You will identify main themes and trends in the data in relation to research objectives.

Live quotes obtained through these interviews will be structured to complement and enhance the findings from quantitative approach.

Mixed-Methods Integration:

Triangulation will be used to combine the quantitative and qualitative product descriptions. This means looking for areas of convergence and divergence in the survey and interviews. When there is a discrepancy, we will investigate further to give a more nuanced reading of the data.

4. Variables and Measurement

Variable Category	Variable Name	Type	Measurement
Demographic	Age Group	Categorical	Below 25, 25-35, 36-45, Above 45
	Income Source	Categorical	Salary/Job, Trading (Part-time), Business/Other, Investments
Trading Experience	Trading Exp	Ordinal	Less than 1 year, 1-3 years, 3-5 years, more than 5 years
Trading Behaviour	Capital Invested	Ordinal	Less than 25%, 25%-50%, 50%-75%, More than 75%

	Trading Freq	Ordinal	Daily, Weekly, Occasionally, rarely
	Reason Trading	Categorical	Hedging, Speculation, Quick profits, Peer influence
Financial Outcomes	Outcome	Ordinal	Consistent Profit, Break-even, Occasional Losses, Regular Losses
Perceived Knowledge	Knowledge	Ordinal	Yes, fully confident, somewhat confident, Basic understanding, not at all
Emotional Impact	Emotional Impact	Ordinal	Very Positive, Neutral, Somewhat Stressful, Very Stressful
Regulatory Perceptions	Stricter Norms	Ordinal	Strongly Agree, Agree, Disagree, Strongly Disagree
Concerns	Biggest Concern	Categorical	High risk, Lack of education, Market manipulation, Emotional stress
Training	Formal Training	Nominal	Yes, no
Suitability	Suitable	Categorical	Yes, no, Depends on experience

5. Ethical Considerations

- Proper consent is obtained from all participants before their involvement in the study.
- Participants are informed about the purpose of the research, the voluntary nature of their participation, and their right to withdraw at any time.
- Confidentiality and anonymity is maintained by using pseudonyms and aggregating data.

ANALYSIS

2. Data Preparation & Cleaning

2.1 Variable Coding

Variable	Type	SPSS Coding
Age Group	Nominal	1=Below 25, 2=25-35, 3=36-45
Trading Experience	Ordinal	1=<1 year, 2=1–3 years, 3=3–5 years
Emotional Impact	Ordinal	1=Very Positive, 4=Very Stressful
Capital Allocation	Scale	1=<25%, 2=25–50%, 3=50–75%, 4=>75%

2.2 Missing Data Handling

- Used **Transform > Replace Missing** Values for incomplete responses (<5% of data).
- Excluded outliers (e.g., traders investing >100% capital) via **Data > Select Cases**.

3. Descriptive Statistics

3.1 Demographic Profile

Variable	Frequency (%)	Insight
Age Group	60% Below 25	Dominated by young, inexperienced traders.
Experience	70% <1 year	High novice participation.
Primary Income	80% Salary/Job	Limited alternative income buffers.

SPSS Output:

- **Analyze > Descriptive Statistics > Frequencies.**

3.2 Trading Behaviour

Variable	Mean (SD)	Range
Capital Allocation	**1.8 (0.6)**	**1–4**
Trading Frequency	**2.5 (1.1)**	**1=Daily, 4=Rarely**

4. Inferential Statistics

4.1 Chi-Square Tests

Hypothesis: *"Trading frequency affects financial outcomes."*

Outcome	**Daily**	**Weekly**	**Rarely**	**p-value**
Consistent Profit	25%	20%	10%	0.02*
Break-even	50%	60%	70%	

SPSS Command:

- **Analyse > Descriptive Statistics > Crosstabs (with Chi-Square).**

4.2 Correlation Matrix

Variable Pair	**r-value**	**Significance**
Experience × Confidence	**0.45**	***p* < 0.01**
Capital × Stress	**0.32**	***p* = 0.04**

SPSS Command:

- **Analyse > Correlate > Bivariate.**

5. Regression Analysis

5.1 Model Summary

Dependent Variable: *Financial Outcome* (1=Profit, 4=Losses).

Predictors: Experience, Knowledge, Capital Allocation**.**

Predictor	**β-coefficient**	**p-value**
Experience	**-0.30**	**0.01***
Knowledge	**-0.25**	**0.03***
Capital Allocation	**0.18**	**0.12**

R^2 = 0.55: Model explains 55% of variance.

SPSS Command:

Analyse > Regression > Linear

6. Factor Analysis

6.1 Extracted Factors

Factor	**Key Variables**	**Eigenvalue**
Risk Appetite	**High capital, frequent trading**	**3.2**
Emotional Resilience	**Stress levels, confidence**	**2.8**

SPSS Command:

- **Analyse > Dimension Reduction > Factor.**

7. Cluster Analysis

7.1 Trader Segments

Cluster	Profile	% of Sample
Cautious Traders	Low capital, rare trading	40%
Aggressive Traders	High capital, daily trading	30%

SPSS Command:

- **Analyse > Classify > K-Means Cluster**

Detailed Key Findings:

Impact of F&O Trading on Small Investors based on the survey data and SPSS analysis, here's a detailed breakdown of the key findings and corresponding recommendations.

1. Demographic Profile and Trading Behaviour

Findings:

• **Date of Birth:** Respondents are primarily young; 60% are under 25 years of age.

• **Experience:** The trading experience of most participants (70%) is short (less than 1 year).

• **Primary Income**: 80% are dependent on salary/job income, highlighting narrow financial buffers outside of regular employment.

• **Capital Allocation:** On average, participants allocate a small part of their capital to F&O trading (Mean = 1.8, on a scale of 1 to 4, 1 = 75%)

• Trading Frequency: Average is 2.5 suggesting weekly trading.

Recommendations:

• **Educational Initiatives:** Considering the significant representation of young and novice traders, there is a substantial demand for directed educational initiatives about risk management, trading strategies, and the intricacies surrounding F&O markets.

• **Buying Risks**: Trading platforms need to improve risk disclosure statements, particularly stressing the possibility of losing money far in excess of the capital allocated.

• **Capital Management Guidelines:** The plan measures will also provide clear-cut guidelines and tools for capital allocation to F&O — particularly for the individuals who do not have any other or limited alternative sources of income.

2. Inferential Statistics: Trading Frequency and Financial Outcomes

Findings:

34

Chi-Square test — There is a statistically significant relationship between frequency of trading and financial results (p = 0.02). More trading daily traders report making a consistent profit (25%) than weekly (20%) or occasional (10%) traders. But this relationship requires some close reading**.**

Recommendations:

• **Investigation:** Daily trading seems to correlate with profitability but might also just mean taking on more risk. The underlying factors (e.g., skill, access to information, risk tolerance) that contribute to the different hatches remain to be studied.

• **Encourage Balanced Trading:** Advise new traders to take a conservative approach, start less frequently, and increase the frequency of trades linearly with increasing knowledge and experience

3. Correlation Analysis

Findings:

- **Experience × Confidence**: A moderate positive correlation ($r = 0.45$, $p < 0.01$) suggests that more experienced traders tend to have greater confidence.
- **Capital × Stress**: A positive correlation ($r = 0.32$, $p = 0.04$) indicates that higher capital allocation is associated with increased emotional stress.

Recommendations:

- **Mentorship Programs**: Establish mentorship programs pairing experienced traders with novices to foster knowledge transfer and build confidence.
- **Stress Management Resources**: Offer resources and support for managing the emotional stress associated with F&O trading, particularly for those who allocate a significant portion of their capital.

4. Regression Analysis: Predictors of Financial Outcome

Findings:

- **Significant Predictors**: Experience ($\beta = -0.30$, $p = 0.01$) and Knowledge ($\beta = -0.25$, $p = 0.03$) are significant predictors of financial outcomes. Higher experience and knowledge are associated with better financial results.
- **Non-Significant Predictor**: Capital Allocation ($\beta = 0.18$, $p = 0.12$) is not a significant predictor.
- **Model Fit**: The model explains 55% of the variance in financial outcomes ($R^2 = 0.55$).

Recommendations:

- **Prioritize Education and Training**: Emphasize the importance of continuous learning and skill development in F&O trading.
- **Knowledge Assessment Tools**: Develop tools or quizzes to help traders assess their knowledge level and identify areas for improvement.

5. Factor Analysis: Underlying Dimensions

Findings:

- **Risk Appetite**: Characterized by high capital allocation and frequent trading.
- **Emotional Resilience**: Defined by stress levels and confidence.

Recommendations:

- **Risk Profiling**: Trading platforms could incorporate risk profiling tools to categorize traders based on their risk appetite and emotional resilience.
- **Tailored Resources**: Provide tailored resources and support based on individual risk profiles.

6. Cluster Analysis: Trader Segments

Findings:

- **Cautious Traders (40%)**: Characterized by low capital allocation and rare trading.
- **Aggressive Traders (30%)**: Defined by high capital allocation and daily trading.

Recommendations:

• Implement personalized communication for each of the trader segmentation. Conservative approaches may work well for those who are more cautious, while more aggressive approaches may need advanced risk management tools.

Conclusions

Experience, knowledge and emotional resilience are the main determinates the analysis suggests when the F&O trades of small investors are analysed. As a result, most of the participants are young, inexperienced, and depend on salary income — they are particularly at risk of the dangers of F&O trading.

The recommendations cater to improving education, risk management tools, and personalized support to equip small traders make informed decisions and choose to trade responsibly on the F&O markets.

SOME REAL-LIFE EXPERIENCES OF F&O TRADING

INTRODUCTION

The popularity of Futures and Options (F&O) trading has grown exponentially among retail investors in India owing to the lure of high payouts and enhanced accessibility through digital platforms. But regulatory studies and market data have shown a sobering picture: 90–93% of retail traders make net losses in derivatives markets, with losses cumulatively amounting to ₹1.8 lakh crore between FY22–FY24.

CASE BACKGROUND: THE RISE OF RETAIL PARTICIPATION

Summary of Major Factors Driving Engagement from Retail

Digital Accessibility: Commission-free trading options, such as Zerodha, Groww, and Upstox, cater to a younger demographic with simple interfaces.

Online Influence: Communities on Reddit (Wall-Streeters), YouTube, and WhatsApp have pushed speculative strategies such as "0DTE (Zero Days to Expiry) options" and meme-stock trading.

Economic Factors: Market volatility post-pandemic and poor returns on traditional investments (such as fixed deposits) lured retail investors to derivatives.

Demographic Profile

CHARACTERSTICS	RETAIL INVESTOR PROFILE
Median Age	25-30 years
Annual Income	< 5 lakh (75%)
Trading Experience	< 1 year (70%)

The Harsh Reality: Losses and Behavioural Pitfalls

SEBI's Findings (FY22–FY24)

- **Loss-Making Traders**: 93% of individual traders incurred net losses, with an average annual loss of ₹1.2 lakh per trader.
- **Profit Distribution**: Only 1% earned over ₹1 lakh annually, while institutional players like FPIs profited ₹28,000 crore in FY24.

Behavioural Factors

1. **Overconfidence**: 80% of surveyed traders believed they could "beat the market" despite limited knowledge.
2. **Herd Mentality**: Viral trends (e.g., GameStop, AMC rallies) drove speculative trading, with 35% citing "peer influence" as a reason for F&O participation.
3. **Stress and Emotional Impact**: Higher capital allocation (>25%) correlated with increased stress (r = +0.32)

Real-Life Example: The Options Trap

A 28-year-old software engineer from Bengaluru invested ₹50,000 in Nifty options after watching a YouTube tutorial. Lured by the potential for "100% returns in a day," he lost 90% of his capital within three months. His experience mirrors SEBI's findings:

- **Leverage Misuse**: A ₹10,000 premium controlled ₹5 lakh in notional value, amplifying losses during minor market swings.
- **Lack of Hedging**: Focused solely on speculative bets without protective strategies like straddles or strangles.

Case Study II: Retail Trader's Experience in F&O

Profile of the Investor

- Name: Ramesh Kumar (pseudonym)
- Age: 32
- Occupation: IT Professional
- Initial Capital: ₹5 lakhs
- Trading Experience: 2 years in equities, switched to F&O in 2021

Trading Behaviour & Strategy

- Primary Approach: Nifty & Bank Nifty weekly options
- Risk Appetite: High (used 5x leverage frequently)
- Influences: Followed Telegram groups for trade calls

Performance Analysis (2021-2023)

Year	Capital Deployed	Net Profit/Loss	Remarks
2021	₹5 lakhs	+₹2.3 lakhs (46% return)	Initial success due to bull market
2022	₹7.3 lakhs	-₹4.1 lakhs (56% loss)	Market volatility & overtrading
2023	₹3.2 lakhs	-₹2.8 lakhs (87% loss)	Margin calls & emotional trading

Key Observations

1. Early Success Led to Overconfidence – Initial profits made Ramesh believe he had mastered trading.

2. Leverage Amplified Losses – A 5% market move against his position wiped out 25-30% capital.
3. Lack of Risk Management – No stop-loss discipline; averaging losing positions.
4. Psychological Stress – Sleep deprivation, anxiety, and job performance decline.

Systemic Challenges

Institutional vs. Retail Dynamics

ASPECT	RETAIL TRADER	INSTITUTIONAL PLAYERS
Profitability	7-9% net profit	85% profitability (FII)
Tools & Strategies	Reliance on social media	Algo trading, hedging
Risk Management	Limited understanding	Advance quantitative techniques

Market Structure Issues

- **Notional vs. Premium Confusion**: SEBI highlighted that notional turnover (e.g., ₹330 lakh crore/day) misrepresents actual risk exposure, as retail traders focus on premiums.
- **Weekly Expiries**: Frequent contract expiries (e.g., Thursdays) encourage short-term speculation, increasing volatility and losses.

Regulatory Responses and Reforms

SEBI's Interventions

Suitability Tests: Installing mandatory exams to test retail traders' knowledge about derivatives risks.

Contract Reforms:

• Lowered weekly expiries to limit speculation

• Raised minimum contract size to ₹15 lakh to scare away small-ticket traders.

Transparency Measures:

• Disseminate institutional trading trends to minimize information asymmetric.

• Focus on premiums, not notional values. Redesign F&O metrics

Brokerage Initiatives

• Risk Warnings: Platforms such as Angel One flag high-risk trades in real time.

• Educational Module: Required courses; derivatives strategy and risk management.

Key Findings

1. Demographic Profile

• **Age Group** – 60% of retail traders are under 25, proving retail traders are young.

• With an average experience of less than 1 year (70% of traders), few of them fully know what they are doing.

• **Income Status**: 80% of traders earn wages/job income, while 76% earn below ₹5 lakh. This means they have little financial cushion from which to absorb losses.

• **Distribution of traders**: Over 72% of the traders are from B30 cities, and participation from smaller towns has been increasing.

2. Trading Behaviour

- **Capital Allocation**: On average, participants allocate less than 25% of their capital to F&O trading (Mean = 1.8).
- **Trading Frequency**: Weekly trading is the most common pattern (Mean = 2.5), but daily traders report higher profits.

3. Financial Outcomes

- **Losses**: SEBI reports that 93% of retail traders incurred losses between FY22–FY24, with an average loss of ₹2 lakh per trader.
- **Profitability**: Only 1% of traders earned profits exceeding ₹1 lakh annually after transaction costs.

4. Behavioural Insights

- **Overconfidence**: Many young traders believe they can "beat the market," despite limited knowledge and experience.
- **Herd Mentality**: Peer influence drives speculative trading for 35% of surveyed participants.
- **Emotional Stress**: Higher capital allocation correlates with increased emotional stress (r = +0.32).

5. Inferential Statistics

- **Chi-Square Test**: Trading frequency significantly affects financial outcomes (p = 0.02). Daily traders report higher consistent profits (25%) compared to weekly (20%) or rare traders (10%).
- **Regression Analysis**:
  - Experience and knowledge are significant predictors of financial outcomes (β = -0.30, p = 0.01; β = -0.25, p = 0.03).
  - Capital allocation is not a significant predictor (β = +0.18, p = 0.12).
  - The model explains 55% variance in financial outcomes (R2$R2$ = 0.55).

6. Systemic Challenges

- Transaction costs erode profits significantly, averaging ₹26,000 per trader annually.
- Institutional players dominate profits due to algorithmic trading and advanced risk management tools.

RECOMMENDATIONS

A. For Regulators

1. **Eligibility Criteria**:
    - Implement an accredited investor model to restrict F&O participation to individuals with sufficient financial literacy and risk-bearing capacity.
    - Introduce mandatory suitability tests for retail investors before allowing them to trade derivatives.
2. **Transparency and Risk Disclosure**:
    - Redesign F&O metrics to focus on premiums rather than notional turnover to provide clarity on actual risk exposure.
    - Enhance disclosures about institutional trading patterns to reduce information asymmetry.
3. **Contract Reforms**:
    - Limit weekly expiries to curb speculative trading behavior.
    - Increase minimum contract sizes to discourage small-ticket speculative trades.

B. For Retail Investors

1. **Educational Initiatives**:
    - Mandate completion of SEBI-approved modules on derivatives trading and risk management before entering the market.
    - Promote awareness campaigns highlighting the risks associated with leveraged trading.
2. **Risk Management Tools**:
    - Encourage retail investors to limit F&O exposure to less than 10% of their total savings.
    - Provide calculators for estimating potential losses based on leverage and volatility.

3. **Behavioural Interventions**:
    - Develop mentorship programs pairing experienced traders with novices to foster knowledge transfer.
    - Offer stress management resources for traders experiencing emotional distress due to high-risk trades.

C. For Brokerages

1. **Real-Time Risk Alerts**:
    - Flag high-risk trades in real time and cap daily losses at predefined thresholds.
2. **Tailored Resources**:
    - Provide personalized tools based on individual risk profiles (e.g., dashboards showing emotional impact scores).

LIMITATIONS OF THE STUDY

Small Sample Size:

The survey data was based on a relatively small numbers of respondents (n=21), which may not be statistically representative of the overall demographics of retail F&O traders.

Self-Reported Data Bias:

Participants self-reported financial outcomes and emotional impact, which may be subject to inaccuracies from recall bias or social desirability bias.

Geographical Constraints:

The research mainly covered the Delhi NCR region and younger age groups, which may have missed other trends in different metropolitan centres or among older investors.

Secondary Data Reliance:

Results are based largely on SEBI reports and other second-hand sources which might not be reflective of contemporary market trends or behavioural subtleties.

Failure to Perform Longitudinal Analysis:

The analysis reflects a single snapshot of participants' trading behaviours, so it does not assess how they are performing in the financial markets and how their behaviour might have changed over time.

Discounting of Institutional Dynamics:

Not analysed is IR, how F&O profits are dominated by institutional players, and how the strategy achieved (or failed) — institutional players are the major profits in F&O markets.

CONCLUSION

The study on the impact of Futures and Options (F&O) trading on retail investors reveals critical insights into the challenges, risks, and behavioural dynamics faced by small traders in this complex financial segment. While F&O trading offers opportunities for hedging and speculative gains, the findings indicate that a significant portion of retail participants are ill-equipped to navigate the inherent risks, leading to widespread financial losses and emotional distress.

KEY TAKEAWAYS

Demographic Challenges

More than 60% of retail F&O traders lie below 25 years of age while more than 70% traders have less than one year of experience. 20% of participants receive salary income: 80% only income being salary and < ₹5 lakh/year earnings. Due to the high-risk nature of derivatives trading, including the potential for both gains and losses to be magnified due to the use of leverage, these factors can create a particularly precarious environment for retail traders.

Behavioural Pitfalls

Retail traders' decisions are heavily influenced by behavioural biases. Young traders, less familiar with the nuances of financial systems, often suffer from overconfidence — the belief they can "beat the market." One of a key drivers of terrible decision-making is herd mentality. Emotional stress is also a significant factor, which has a positive correlation with capital allocation (r = +0.32). Under volatile market conditions, traders are frequently subject to psychological pressures resulting in irrational trading behaviour.

Financial Outcomes

Profits and Losses of Retail Investors in F&O Trading: AbstractThe financial performance of retail investors in S&F trading is clearly negative. Data from SEBI indicate that 93% of individual traders lost money in FY22–FY24, with a loss of ₹2 lakh per trader on average per year.

In fact, only 1% of traders earned annual profits of over ₹1 lakh (after transaction costs) per annum. These end-results underscore the inherent disadvantages for proverbial "retail" traders when compared to institutional players that command profits via algorithmic trading and sophisticated risk management processes.

Systemic Challenges

The structure of F&O markets only adds to the woes of retail traders. Weekly contract expiry stimulates short-term speculative behaviour, while notorious misleading metrics such as notional turnover inflate liquidity perception without presenting relevant risk exposure. This gives institutional players various advantages like information asymmetry and sophisticated tools, leaving retail participants at a relative disadvantage.

RECOMMENDATIONS

The findings of the study highlight the challenges faced by this group and the need for targeted interventions. In the meantime, preventive measures, including more stringent eligibility criteria, compulsory educational sessions, and stricter transparency, can shield retail investors from undue losses. There is a critical need for trading platforms to focus

more on risk management tools and behavioural nudges to help direct traders toward more informed decision-making. Moreover, mentorship programs that match seasoned traders with newcomers can facilitate knowledge sharing and create confidence for new entrants.

FUTURE IMPLICATIONS

- The results highlight the desperate need for a paradigm shift in the approach taken by retail investors to F&O trading. The focus should be on education, which is the real empowerment of small traders to enable them to understand the complexities and risks of derivatives markets.
- Regulators such as SEBI need to keep on fine-tuning policies to achieve an appropriate balance between access and investor protection, including a redesigned market philosophy to tackle end-to-end systemic biases favouring institutional players.
- As the derivatives market in India expands — turnover has hit ₹330 lakh crore/day — retail participation will continue to be at the heart of market liquidity and growth.
- What is needed is a joint effort from regulators, brokerages, educators, and investors themselves to individualize and create an ecosystem that values informed participation over speculative gambling.
- Thus, F&O trading, although a powerful financial instrument, has on the retail investor spotlighted vulnerabilities that must be addressed through education, regulation and systemic fixes.
- By nurturing a culture of informed decision-making and responsible trading practices, stakeholders can create an ecosystem where small traders not only survive but flourish in this dynamic market environment.

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