

A Study on Investors Preference in the Commodity Market of India: With Special Reference to Punjab

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Abstract

People from all walks of life invest in various types of assets irrespective of their age, occupation, education and income. Whenever a person has surplus money than he requires for current consumption, he would like to invest that money in financial assets like securities, fixed deposits and insurance or in physical assets like gold or real estate. People generally prefer to invest in physical assets rather than financial assets, probably because of the complex nature of financial assets. Every financial asset and plan have its own pros and cons and the investors have their own preferences for different schemes and plans. Thus investors choose investments, according to their perceptions and attitudes. These day's commodity markets prove to be a very major avenue of investment. As the investment behavior of the investors is influenced by the objectives and motives of an investment, the researcher likes to study about the investor's preference in the commodity market of India.

Key Words: commodity market, investors, perception

INTRODUCTION

Commodity futures market is defined as a place or institution through which commodities are traded. The main participants of a commodity market are sellers and the buyers, who meet each other in the market. Prices are discovered through an auction mechanism whereby a seller asks for a certain price and buyers offering them a price and one mutually agreed price is settled. Forward Contracts (Regulation) Act (FCRA), 1952 defines 'goods' as 'every kind of movable property other than actionable claims, money and securities'. Globally commodity markets have gone through a long journey. In India, first organized futures exchange of India, namely, Bombay Cotton Traders Association Established was set up in 1875.

Afterward, large numbers of regional commodity exchanges were established. At present in India, a total number of recognized / registered commodity exchanges are 22, which are dealing in as many as 113 commodities together. Among these 22 exchanges, most of the exchanges are single commodity based and the area of their operation is regional. Only six commodity exchanges have been established in India with national character and facilitating multi-commodity platform.

In this growing mixed economic system in developing countries like India, globalization provides a big platform, more opportunities to extend the domestic business throughout the world and creating plenty of job opportunities in India. Hence

income of Indian individual has been increasing which needs to be invested.

People from all walks of life invest in various types of assets irrespective of their age, occupation, education and income. Whenever a person has surplus money than he requires for current consumption, he would like to invest that money in financial assets like securities, fixed deposits and insurance or in physical assets like gold or real estate. People generally prefer to invest in physical assets rather than financial assets, probably because of the complex nature of financial assets. Every financial asset and plan have its own pros and cons and the investors have their own preferences for different schemes and plans. Thus investors choose investments, according to their perceptions and attitudes.

These day's commodity markets prove to be a very major avenue of investment. As the investment behavior of the investors is influenced by the objectives and motives of an investment, the researcher likes to study about the investor's preference in the commodity market of India.

REVIEW OF LITERATURE

Kumar and Balaji (2012) in the paper titled "An Empirical Investigation on the Investors Perception towards Commodities Futures Trading in India with Special Reference to Pondicherry, India" identified that investors perceive that future trading leads to only profits and it is not used for other purpose like hedging. The study concluded that there is no significant relationship between the Gender and the Category of Investment but there is significant difference between the perceptions and the saving percentage for the commodity futures. Futures markets are

still viewed with suspicion by many investors, so number of reforms and initiatives are still needed in promoting India as a major futures trading hub.

Senthil (2012) the paper titled "Investor's Perception Regarding the Performance of Indian Mutual Funds" investigated the investor's interest and behaviour towards commodity future market in terms of goals, preferences, factors influencing while selecting the schemes. The findings of study concluded that the investor's main goal is wealth appreciation and suggested that the mutual fund companies should control the charges to be paid by the retail investor's and bring the expense to a reasonable level.

Kumar (2013) in the paper titled "A Study of Customers Preference towards Investment in Equity Share and Mutual Funds" made an attempt to study the objective of investment of investors and their preference towards various investment alternatives through statistical tools- z test, chi-square, percentage analysis and ranking method. Author concluded that investors consider mutual funds and equity share as good investment alternative as they prefer liquidity and return as an important criteria for investment consideration.

Sivarethinamohan and Aranganathar (2013) in the paper titled "A Study of Investors Preference in Indian Commodities Market" studied investor's preference in various investment avenues of commodity market products and also to identify the relationship between the various factors influencing the investor's decisions on commodity market. The study observed significant association between respondent's age and different factors like terms,

conditions and benefits. Significant association between respondent's profession and factors such as awareness and knowledge, tax exemptions and affordable brokerages is also observed. Author concluded that different respondents consider different factors to take their investment decisions in commodity market investments because of presence of both risk and return factors.

Ilyas (2015) in the paper titled "Indian Investors Behavior and Perception: A Study of Commodity Market" focused on exploring the factors influencing the behavior of investors towards commodity market in India. Results of factor analysis and descriptive statistics concluded presence of multiple factors that have greater influence on the behavior of investors of commodity market of India. Information asymmetry, objective knowledge, high return and low risk are the main factors that have influence on commodity market investor's behavior.

RESEARCH METHODOLOGY

A. Objective of study

Commodity Market provides various investment avenues to the investors to invest their surplus money. As the investment behavior of the investors is influenced by objectives and motives of an investment, an attempt is made in this paper to study and analyze the investor's preference in commodity market of India.

B. Research Design

1. Sample size

The study based on the responses of 150 individual investors was collected through a structured questionnaire. The population from which the sample has been selected

consists of the individual investors residing in Punjab.

2. Sampling method

The sampling method adopted for this study is Convenient Sampling Method.

C. Tools of Data Collection

To study and analyze the preference of the investors in the commodity market of India, a primary survey has been conducted. The questionnaire as a tool has been used for the collection of primary data.

Pre testing

The questionnaire was first pre-tested with 10 respondents whether the questionnaire was leading to the research objective or not. After getting certain suggestions from respondents during the pilot survey, necessary modifications were made in the questionnaire.

4. Statistical Tools used

The primary data collected from the investors of the commodity market have been analysed using spreadsheet software 'Microsoft Excel' and statistical analysis package 'Statistical Package for Social Sciences (SPSS)'16 version by applying following statistical tools:

- Simple Percentage
- Graphical Presentation
- Chi-square test

ANALYSIS AND INTERPRETATION

Demographic Profile of the Respondents

The demographic characteristics of 150 individual investors surveyed are classified on the basis of Gender (Male and Female), Age (Less than 30 years, 30-45 years, More than 45 years), Qualification (Matric, Graduate, Post Graduate, and Professional

degree), Occupation (Businessman, Professional, and Serviceman, Any Other) and Annual Income (upto Rs.2 lakh, Rs.2 lakh to Rs.5 lakh and Rs.5 lakh and above). The results are discussed in the following sub-headings.

Gender of investor:

The distribution of gender of investors was analyzed and the results are presented in table 1.

Table 1: Gender-wise Classification of Respondents

| Gender | No. of respondents | %age of total |
|---------------|---------------------------|----------------------|
| Male | 118 | 78.7 |
| Female | 32 | 21.3 |
| Total | 150 | 100 |

From the above table it is inferred that 78.7 percent (118) of the respondents are male whereas 21.3 percent (32) are female.

Other demographic variables:

Table 2 presents results of other demographic variables. From the table it is inferred that 37.3 percent of the respondents are *less than 30 years* of age, 36.7 percent of the respondents are between *30-45 years* of age, 26 percent of the respondents are above 45 years of age. The table also reveals that 8 percent of the respondents are *matric* pass, 31.3 percent are *graduates*, 53.3 percent are *post graduates* and only 7.3 percent are

holding *professional degree*. Also 53.3 percent are *service* people, 27.3 percent respondents are *businessman*, 15.3 percent are *professionals* and just 4 percent fall in *any other type of occupation* category. It is also observed that 43.3 percent of the respondents are earning income between *Rs.2 lakh to Rs.5 lakh*, 44 percent in the category of *over Rs. 5 lakh* and only 12.7 percent are earning *upto Rs. 2 lakh* in a year.

Table 2: Other Demographic Variables

| Variables | Groups | Gender | | | | Total | |
|----------------------|----------------------------|---------------|-------|---------------|-------|--------------|-------|
| | | Male | | Female | | | |
| Age | <i>Less than 30 yrs</i> | 39 | 69.6% | 17 | 30.4% | 56 | 37.3% |
| | <i>30-45 yrs</i> | 49 | 89.1% | 6 | 10.9% | 55 | 36.7% |
| | <i>Above 45 yrs</i> | 30 | 76.9% | 9 | 23.1% | 39 | 26.0% |
| Qualification | <i>Matric</i> | 9 | 75.0% | 3 | 25.0% | 12 | 8.0% |
| | <i>Graduate</i> | 39 | 83.0% | 8 | 17.0% | 47 | 31.3% |
| | <i>Post Graduate</i> | 61 | 76.2% | 19 | 23.8% | 80 | 53.3% |
| | <i>Professional Degree</i> | 9 | 81.8% | 2 | 18.2% | 11 | 7.3% |
| Occupation | <i>Businessman</i> | 33 | 80.5% | 8 | 19.5% | 41 | 27.3% |
| | <i>Professional</i> | 18 | 78.3% | 5 | 21.7% | 23 | 15.3% |

| | | | | | | | |
|----------------------|-------------------------------|-----|-------|----|-------|-----|--------|
| | <i>Serviceman</i> | 62 | 77.5% | 18 | 22.5% | 80 | 53.3% |
| | <i>Any other</i> | 5 | 83.3% | 1 | 16.7% | 6 | 4.0% |
| Annual Income | <i>Up to Rs.2 lakh</i> | 13 | 68.4% | 6 | 31.6% | 19 | 12.7% |
| | <i>Rs.2 lakh to Rs.5 lakh</i> | 53 | 81.5% | 12 | 18.5% | 65 | 43.3% |
| | <i>Over Rs.5 lakh</i> | 52 | 78.8% | 14 | 21.2% | 66 | 44.0% |
| Total | | 118 | 78.7% | 32 | 21.3% | 150 | 100.0% |

Preference of Commodity Exchange for Investment

To know the investors interests in commodity exchanges of India, they were asked to rank 1-5 in order of their preference

for investment and were given five options: MCX, NCDEX, NMCE, ICEX and ACE. Their preferences are analyzed and presented in table 3 and fig. 1.

Table 3: Preference of commodity exchange

| Rank/Exchanges | Rank 1 Frequency | Percentage |
|----------------|------------------|------------|
| MCX | 111 | 74% |
| NCDEX | 39 | 26% |

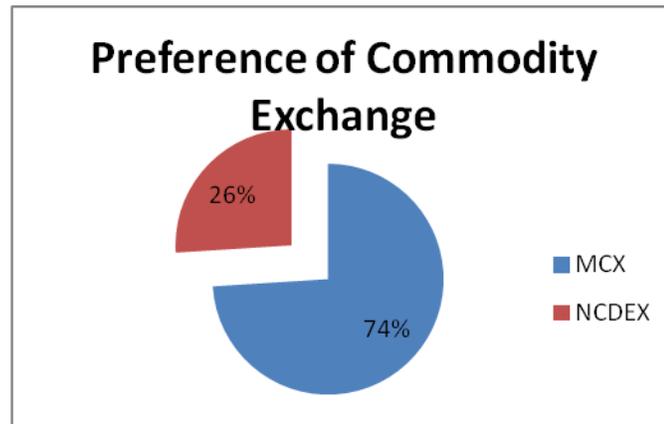


Fig. 1

From the above figure. it is observed that out of the five national commodity exchanges, investors prefer to invest in MCX or NCDEX. None of the respondents preferred other commodity exchanges i.e.

NMCE, ICEX or ACE as their first choice for investment. Out of 150 respondents under survey, 74 percent (111) preferred to invest in MCX and only 26 percent (39) preferred NCDEX.

Preference of Specific Commodity Exchange for Investment

To ascertain the reason for the preference of the respondents for specific commodity exchange for investment, they were given open choice to express their opinion about the preferred commodity exchange. Based

on the response, their opinion was classified in five preferences – volume of trade in exchange, easy to trade, don't trade in agriculture, profits of exchange and trend in the market and is presented in table 4.

Table 4: Preference of specific commodity exchange for investment

| Preference of Specific Commodity Exchange | | |
|---|-----------|---------|
| | Frequency | Percent |
| Volume of trade | 66 | 44.0 |
| Easy to trade | 61 | 40.7 |
| Don't trade in agriculture | 7 | 4.7 |
| Profits | 10 | 6.7 |
| Trend | 6 | 4.0 |
| Total | 150 | 100.0 |

Results of the table depicts that 44 percent (66) of the investors prefer to invest in desired commodity exchange because of its *high volume*, whereas 40.7 percent (61) of the respondents preferred specific exchange for its *easy procedure*. Only 4 percent (6) investors followed *trend* in the market for their preference of commodity exchange.

Preference about the Commodities in which Respondents Prefer to Invest:

To know the investors preference about the commodities in which they prefer to invest, respondents were asked to rank 1 to 4 the commodities group- bullion, agriculture, metals and energy. Their preferences are analyzed and presented in table 5 and fig 2.

Table 5: Preference of commodities

| Commodity group/Rank | Ranks | | | | Total |
|----------------------|--------|--------|--------|--------|--------|
| | Rank 1 | Rank 2 | Rank 3 | Rank 4 | |
| Bullion | 38 | 61 | 41 | 10 | 150 |
| | 25.3% | 40.7% | 27.3% | 6.7% | 100.0% |
| Agricultural | 33 | 12 | 12 | 93 | 150 |
| | 22.0% | 8.0% | 8.0% | 62.0% | 100.0% |
| Metals | 71 | 35 | 22 | 22 | 150 |
| | 47.3% | 23.3% | 14.7% | 14.7% | 100.0% |
| Energy | 9 | 41 | 75 | 25 | 150 |
| | 6.0% | 27.3% | 50.0% | 16.7% | 100.0% |

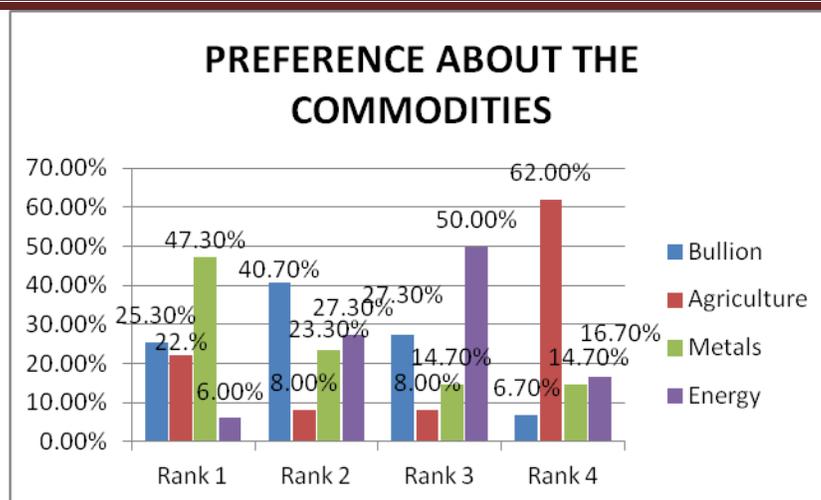


Fig. 2

Commodities in *metal* group seem to be most preferred as 47.3 percent (71) respondents ranked this commodity group as no.1. Second most preferred commodity group is *bullion* with 25.3 percent (38) investors ranking it no.1. Commodity group *energy* is ranked no.1 only by 6 percent (9) respondents, whereas 50 percent (75) of the respondents ranked it no.3.

To know why the respondents choose commodity market as an investment avenue, they were given four options – high return, moderate return, safe return and easy procedure and were asked to tick the reason for their preference. Table 6 shows the responses of the respondents for investing in commodity market on the basis of various demographics feature.

Reasons for Choosing Commodity Market:

Table 6: Reasons for choosing commodity market

| Variables | Groups | Reasons | | | | | Chi-square | Sig. |
|--------------|------------------|-------------|-----------------|-------------|----------------|--------|------------|-------|
| | | High return | Moderate return | Safe return | Easy procedure | Total | | |
| Gender | Male | 68 | 28 | 8 | 14 | 118 | 5.019 | 0.170 |
| | | 57.6% | 23.7% | 6.8% | 11.9% | 100.0% | | |
| Female | Female | 16 | 10 | 5 | 1 | 32 | | |
| | | 50.0% | 31.2% | 15.6% | 3.1% | 100.0% | | |
| Age | Less than 30 yrs | 35 | 10 | 6 | 5 | 56 | 12.733 | 0.047 |
| | | 62.5% | 17.9% | 10.7% | 8.9% | 100.0% | | |
| | 30-45 yrs | 28 | 19 | 6 | 2 | 55 | | |
| | | 50.9% | 34.5% | 10.9% | 3.6% | 100.0% | | |
| Above 45 yrs | 21 | 9 | 1 | 8 | 39 | | | |

| | | | | | | | | |
|----------------------------|-------------------------------|-------|-------|-------|--------|--------|--------|-------|
| | | 53.8% | 23.1% | 2.6% | 20.5% | 100.0% | | |
| Qualification | <i>Matric</i> | 1 | 3 | 0 | 8 | 12 | 70.925 | 0.000 |
| | | 8.3% | 25.0% | 0.0% | 66.7% | 100.0% | | |
| | <i>Graduate</i> | 22 | 14 | 8 | 3 | 47 | | |
| | | 46.8% | 29.8% | 17.0% | 6.4% | 100.0% | | |
| | <i>Post Graduate</i> | 59 | 16 | 2 | 3 | 80 | | |
| | | 73.8% | 20.0% | 2.5% | 3.8% | 100.0% | | |
| <i>Professional Degree</i> | 2 | 5 | 3 | 1 | 11 | | | |
| | 18.2% | 45.5% | 27.3% | 9.1% | 100.0% | | | |
| Occupation | <i>Businessman</i> | 16 | 10 | 7 | 8 | 41 | 28.130 | 0.001 |
| | | 39.0% | 24.4% | 17.1% | 19.5% | 100.0% | | |
| | <i>Professional</i> | 10 | 9 | 3 | 1 | 23 | | |
| | | 43.5% | 39.1% | 13.0% | 4.3% | 100.0% | | |
| | <i>Serviceman</i> | 57 | 16 | 3 | 4 | 80 | | |
| | | 71.2% | 20.0% | 3.8% | 5.0% | 100.0% | | |
| <i>Any other</i> | 1 | 3 | 0 | 2 | 6 | | | |
| | 16.7% | 50.0% | 0.0% | 33.3% | 100.0% | | | |
| Annual income | <i>Up to Rs.2 lakh</i> | 8 | 3 | 5 | 3 | 19 | 28.195 | 0.000 |
| | | 42.1% | 15.8% | 26.3% | 15.8% | 100.0% | | |
| | <i>Rs.2 lakh to Rs.5 lakh</i> | 26 | 26 | 5 | 8 | 65 | | |
| | | 40.0% | 40.0% | 7.7% | 12.3% | 100.0% | | |
| <i>Over Rs.5 lakh</i> | 50 | 9 | 3 | 4 | 66 | | | |
| | 75.8% | 13.6% | 4.5% | 6.1% | 100.0% | | | |
| Total | | 84 | 38 | 13 | 15 | 150 | | |
| | | 56.0% | 25.3% | 8.7% | 10.0% | 100.0% | | |

a) Gender:

Out of the total respondents, 57.6 percent (68) of the male investors and 50 percent (16) of the female investors expects high return for their investment in the commodity market as a reason for choosing commodity market. Only 3.1 percent (1) of the female investor consider easy procedure of the commodity market as the reason for investment in this market. The Chi-square value at 5 percent level of significance showed that no significant differences existed among the gender of investors with respect to reasons for

choosing commodity market as investment (p=0.170).

b) Age:

Age wise classification depicts that 62.5 percent (35) in the category of less than 30 years, 50.9 percent (28) in the category of 30-45 years and 53.8 percent (21) in above 45 years of age expects high returns in the commodity market as the reason for investment in this market. Only 2.6 percent (1) of elderly age group considers safe return, 3.6 percent (2) of the investors in age group of 30-45 years and 8.9 percent (5) in less than 30 years of age

considers easy procedure as an investment avenue in the commodity market. Most of the respondents in the survey consider high return from their investment in the commodity market as a reason for choosing commodity market. The Chi-square value at 5 percent level of significance showed that significant differences existed between the respondents belonging to different age group with respect to reasons for choosing commodity as investment (p=0.047).

c) Qualification:

Qualification wise classification depicts that 46.8 percent (22) of the *graduates* and 73.8 percent (59) of the *post graduates* choose investment in the commodity market because of expectations of high returns from the market. Out of the *professional degree* holder respondents, 45.5 percent (5) of them consider moderate returns, whereas 66.7 percent (8) of the *matric pass* respondents feel easy procedure as their preference in choosing the commodity market. The Chi-square value at 5 percent level of significance showed that significant differences existed between the respondents of different qualification with respect to reasons for choosing commodity market as investment (p=0.000).

d) Occupation:

Out of the total respondents in the survey, 39 percent (16) *businessman*, 43.5 percent (10) *professionals* and 71.2 percent (57) *serviceman* consider high return from their investment in the commodity market as a reason for choosing commodity. In the case of *any other occupation* category, 50 percent

(3) of them consider moderate return from the investment in the commodity market. The Chi-square value at 5 percent level of significance showed that significant differences existed between the respondents of different occupation with respect to reasons for choosing commodity market as investment (p=0.001).

e) Annual Income:

According to annual income of the respondents, 42.1 percent (8) in *upto Rs.2 lakh*, 40 percent (26) in *Rs.2 lakh to Rs.5 lakh* and 75.8 percent (50) in *above Rs.5 lakh* income group consider high return from their investment in the commodity market as a reason for choosing commodity market. The Chi-square value at 5 percent level of significance showed that significant differences existed between the respondents of different income groups with respect to reasons for choosing commodity market as investment (p=0.000).

FINDINGS OF THE STUDY:

- 78.7 percent of the respondents are male and 21.3 percent are female.
- Respondents have ranked MCX as number one commodity exchange of India because of the high volume of trading in this exchange.
- Of the four commodities group (i.e. bullion, agriculture, metals, and energy), respondents prefer to invest in the metals category.
- Majority of investors choose commodity market as an investment avenue because of high returns from the market

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