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A Study on Investor's attitude towards Currency market in Chennai, Tamil nadu. India

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Abstract

Investment is the purchase of an asset or item with the hope that it will generate income or appreciate in the future and be sold at the higher price. This article sheds light on investment behavior of investors and investment preference for the same. Investment is necessary for meeting the cost of inflation and to maintain the liquidity. The main purpose of this study is to evaluate that which is the most favorable option in which people like to invest their savings and which factors do generally considered by people while making investments in available avenues. Descriptive research design was adopted in this study. Convenient sampling technique used to choose samples. Totally 300 respondents participated through by questionnaire in this study. Chi square, One way Anova, Mann – whitney U test, Kruskal –Wallis test and Rank correlation test were used to measure hypothesis and analyze the matrimonial sites. Findings indicate that Majority of the respondents believe to the statement “High risk, high return”. The main objective of investing in currency market is for the return on investment and the wealth maximization.

Keywords:

Currency, return, risk, investor's attitude, term of investment, savings.

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Introduction

The foreign exchange market is the mechanism by which currencies are valued relative to one another, and exchanged. An individual or institution buys one currency and sells another in a simultaneous transaction. Currency trading always occurs in pairs where one currency is sold for another and is represented in the following notation: EUR/USD or CHF/YEN. The exchange rate is determined through the interaction of market forces dealing with supply and demand.

Currency Trading is the exchange of money from different countries. The value of one country's currency is constantly changing against the value of another country's currency. The investors make money through buying and selling currencies on the foreign exchange market. Currency is affected by various economic and political factors. The largest fluctuations in currency prices usually occur during Central Bank intervention, when government trade in huge amounts in an attempt to either raise or lower the value of their own currency. This, as well as many other factors such as interest rate changes, economic figures, political instability and large lot transactions by hedge funds can move the market. Currencies trade in pairs, like the Euro-US Dollar (EUR/USD) or US Dollar / Japanese Yen (USD/JPY). Currency Trading is used to speculate on the relative strength of one currency against another. The currency market is an over-the-counter market, which means that it is a decentralized market with no central exchange..

Foreign Exchange Traders generate profits, or losses, by speculating whether a currency will rise or fall in value in comparison to another currency. A trader would buy the currency which is anticipated to gain in value, or sell the currency which is anticipated to lose value against another currency. The value of a currency, in the simplest explanation, is a reflection of the condition of that country's economy with respect to other major economies. The Forex market does not rely on any one particular economy. Whether or not an economy is flourishing or falling into a recession, a trader can earn money by either buying **or** selling the currency. Reactive trading is the buying or selling of currencies in response to economic or political events, while speculative trading is based on a trader anticipating events.

Benefits of Forex Trading

- The forex market is the largest and most liquid of the financial markets.
- Daily activity often exceeds \$4 trillion USD a day, with over \$1.5 trillion of that conducted in the form of *spot trading*.
- Forex spot trades consist of a contract to trade a given amount of a currency pair with a market-maker, at the advertised buy / sell price (the spot rate).
- It is the existence of volatility within the forex market that enables trader's to take advantage of exchange rate fluctuations for speculative purposes.
- Traders must be aware that greater volatility also means greater risk potential.

Review of Literature

Dr. Devajit mahanta-Since its inception in 2008, currency derivative trade in India had experienced explosive growth, both in volumes and value over the years across all the four currencies contracts that were in operation in INRUSD, INRGBP, INREUR and INRJPY. However in terms of the open interest currency derivatives trade in MCX is more as compared to the NSE. By consider both stock and commodity exchanges for launching currency futures contracts government of India has done a commendable job which is

expected to increase the number of quality players, introduce healthy competition and boost trading volumes of Indian currency futures. The global markets (mainly USA) become active only after Indian markets close at 5.00 pm and as a result there is an evident fear about the risks associated with overnight fluctuations in the currency pair. Therefore the functioning as well as the profitability in Indian currency futures is effected by the current performance of the international currency futures market. It is imperative that any evaluation, projection on Indian currency futures market should be undertaken keeping the international market in perspective.

According to the RBI-SEBI standing technical committee report (RBI-SEBI, 2008) in the context of liberalization of the capital and commodity futures market most of the participant from the both markets felt that hedging opportunity through currency trading enhance the flexibility to manage their currency risk dynamically. Even international experience shows that exchange traded currency futures contracts facilitate efficient price discovery. The launch of currency derivatives in India follow the recommendations made jointly by the Securities and Exchange Board of India and the Reserve Bank of India in May 2008.

Nair (2004) observed that in most of the countries, where currency futures have really flourished, the trading takes place on multiple commodity exchanges, rather than stock exchanges. Besides, since foreign operators NRIs, FIIs etc. are barred from participating, the new exchange means the contract can be traded only within India and that too, without involving any outflow of funds.

A study by Guru (2009) indicated that the global markets (mainly USA) become active only after Indian markets close at 5.00 pm and as a result there is an evident fear about the risks associated with overnight fluctuations in the currency pair. Once the Indian markets close, the positions cannot be reversed by the traders till the next day. The tax treatment of the gains/losses in the futures currency market would this be treated as business income as in the case of equity derivatives also not make it clear by the regulator.

Dharen Kumar Pandey (Banaras Hindu University)-The introduction of currency futures in India has passed a journey of almost two years and many changes have been implemented in the trading system in this regard. Currency futures have significantly gained importance all over the world since the first currency futures contract was traded in the year 1972. The futures market holds a great importance in the economy and, therefore, it becomes imperative that we analyse this important market and seek answers to a few basic questions. The main theme of this paper is to assess the speed in which the growth of currency futures in India has accelerated. It also aims at examining the volatility of the currency futures. In order to study the growth of the currency futures, the number of contracts traded and open interest at NSE has been inclusively compared. Attempt has been made to check whether the daily returns of the NSE on currency futures are normally distributed. For this purpose the changes in the daily value of Rupee as compared to Dollar, Yen, Euro and Pound have been calculated for the period and the data have been used for the ANOVA Test to test the hypothesis that the returns are normally distributed. The currency futures have received a good response from the investors as well as the hedgers. Initially, currency futures were started for USD-INR contracts but trading in Euro-INR, Yen-INR and Pound-INR contracts have been introduced in January 2010. The risk involved is comparatively low in this case and currency futures has proved to be a good tool for hedging the risk involved in the currency of a country (currency risk). It is hoped that the currency futures market will develop more faster and it will be a good choice for all the market participants in the near future and it will find its way in the Indian economy.

Need For The Study

- The study is an attempt to know the perception level of investors towards currency market. The study will help the organization to understand the needs of the investors and in tracking them in future as per their need. This study is quite helpful in understanding the functioning of currency trading company in recent market condition..

Scope of the study

The study covers the entire currency market in order to understand the perception level of investors. The study also tries to cover the investment information of investors considering the socio-economic status of the investors.

Objectives

1. To understand the investors preference towards currency market.
2. To identify the source this provides information to investors about currency market.
3. To identify the level of risk the investors prefer to take in their investment.
4. To study the factors which investors consider before investing.
5. To find out the duration of investment which investors prefer.
6. To identify the objective of saving of an investment.
7. To study the dependence/independence level of demographic factors of the investors.

Limitation And Constraints

1. However the data collected and interpreted with utmost reliability and consistency But due to subjectivity and prejudice of a few respondents, certain limitation like answers of the questionnaire depend upon the belief of customers, which they may differ from the reliability
2. The survey conducted considering the time & space constraint: Chance of wrong answer cannot be ruled out; indirect measures relied upon the customer's attitude etc.

Hypothesis Formulation (H₀)

H₀: There is no significant relationship between Investor's Education Qualification and Investor's Source of Information about Currency Market

H₀: There is no significant relationship between Occupation of the investor's and Investor's Willingness to take Risk in Currency Market

H₀: The Samples are drawn from identical population

H₀: There is no significant difference in means of these samples

Research Methodology

Research Design: Descriptive research design was undertaken in this research.

Sampling Technique: Convenience sampling technique was utilized from non-probability sampling method to select the sample.

Method of Data Collection: Survey method of primary data collection using combined interview and questionnaire adopted for collection of primary. Secondary data's collected from books, journal, newspaper and websites.

sample size : 121 respondents

Statistical Tools: This research was analyzed through 5 tools. They are Percentage analysis, Chi-Square analysis, Mann Whitney U Test, Anova Table

Chi Square

Chi square test is a non-parameter test that establishes the in dependence between variables. It is measured by comparing the observed with those of expected frequencies based on the hypothesis. It is given by

$$\Psi = \sum (O-E)^2 / E$$

O=Observed Frequencies

E=Expected Frequencies

Analysis to find the relationship between Occupation of the investor's and Investor's Willingness to take Risk in Currency Market

OCCUPATION OF INVESTOR	OPTIONS	More Risk	Modest Risk	Avoid Risk	TOTAL
INVESTOR'S WILLINGNESS TO TAKE RISK	Business	25	26	22	73
	Government Employee	4	10	2	16
	Private Employee	5	15	5	25
	Retired	1	4	2	7
	TOTAL	35	55	31	121

Null Hypothesis: (H0) There is no significant relationship between Occupation of the investor's and Investor's Willingness to take Risk in Currency Market.

Alternative Hypothesis: (H1) There is a significant relationship between Occupation of the investor's and Investor's Willingness to take Risk in Currency Market

Calculation:

Observed frequency (O)	Expected Frequency (E)	O-E	(O-E)^2	(O-E)^2/E
25	21.12	3.89	15.09	0.71

26	33.18	-7.18	51.57	1.55
22	18.70	3.30	10.88	0.58
4	4.63	-0.63	0.39	0.09
10	7.27	2.73	7.44	1.02
2	4.10	-2.10	4.41	1.07
5	7.23	-2.23	4.98	0.69
15	11.36	3.64	13.23	1.16
5	6.40	-1.40	1.97	0.31
1	2.02	-1.02	1.05	0.52
4	3.18	0.82	0.67	0.21
2	1.79	0.21	0.04	0.02
			Total	7.95

Degree of freedom: $(r-1)(c-1) = (4-1)(3-1) = 6$

Let $\alpha=0.05$, So Table Value @ 0.05 = 12.592

Calculated Value is 7.95

Since calculated value < tabulated value, H_0 is accepted.

Decision : This indicates that there is no significant relationship between Occupation of the investor's and Investor's Willingness to take Risk in Currency Market.

Analysis to find the relationship between Investor's Education Qualification and Investor's getting Source of Information about Currency Market

Source Of Information	Options	Monthly Updates	Quarterly Updates	Half Yearly Updates	Newspaper	Websites	TOTAL
Qualification	Schooling	0	0	0	0	0	0
	Diploma	3	2	2	2	5	14
	U.G	6	3	3	2	6	20
	P.G	16	4	3	3	9	35
	Professional Degree	16	11	2	5	18	52
	Total	41	20	10	12	38	121

Hypothesis:

Null Hypothesis: (H_0) There is no significant relationship between Investor's Education Qualification and Investor's Source of Information about Currency Market.

Alternative Hypothesis: (H_1) There is a significant relationship between Investor's Education Qualification and Investor's Source of Information about Currency Market

Calculation:

Observed frequency (O)	Expected Frequency (E)	O-E	(O-E)^2	(O-E)^2/E
0	0.00	0.00	0.00	0.00
0	0.00	0.00	0.00	0.00
0	0.00	0.00	0.00	0.00
0	0.00	0.00	0.00	0.00
0	0.00	0.00	0.00	0.00
3	4.74	-1.74	3.04	0.64
2	2.31	-0.31	0.10	0.04
2	1.16	0.84	0.71	0.61
2	1.39	0.61	0.37	0.27
5	4.40	0.60	0.36	0.08
6	6.78	-0.78	0.60	0.09
3	3.31	-0.31	0.09	0.03
3	1.65	1.35	1.82	1.10
2	1.98	0.02	0.00	0.00
6	6.28	-0.28	0.08	0.01
16	11.86	4.14	17.15	1.45
4	5.79	-1.79	3.19	0.55
3	2.89	0.11	0.01	0.00
3	3.47	-0.47	0.22	0.06
9	10.99	-1.99	3.96	0.36
16	17.62	-1.62	2.62	0.15
11	8.60	2.41	5.78	0.67
2	4.30	-2.30	5.28	1.23
5	5.16	-0.16	0.02	0.00
18	16.33	1.67	2.78	0.17
Total				7.53

Degree of freedom: $(r-1)(c-1) = (5-1)(5-1) = 16$

Let $\alpha=0.05$, So Table Value @ 0.05 = 26.296

Calculated Value is 7.53

Since calculated value < tabulated value, H0 is accepted.

Inference:

This indicates that there is no significant relationship between Investor’s Education Qualification and Investor’s Analysing Source of Information about Currency Market.

Mann-Whitney U-Test

It is a nonparametric method used to determine whether two independent samples have been drawn from populations with same distribution. This test is also known as u-test. This method helps us to determine whether the two samples have come from identical populations.

$$Z = \frac{U - E(U)}{\sigma U}$$

Hypothesis:

Null hypothesis (H0): The Samples are drawn from identical population.

Alternative hypothesis (H1): The Samples are not drawn from identical population.

Investment Avenues	30	15	10	8	21	23	11	3
Pairs of Currencies	35	5	40	4	20	0	17	-

Calculation:

Investment Avenues	Rank 1 (R1)	Pairs of Currencies	Rank 2 (R2)
30	13	35	14
15	8	5	4
10	6	40	15
8	5	4	3
21	11	20	10
23	12	0	1
11	7	17	9
3	2	-	-
	∑R1 =64		∑R2 =56

Here $n_1=8$ and $n_2=7$,

$$U \text{ Statistics: } U = n_1 n_2 + \frac{n_1(n_1+1)}{2} - R_1 = (8*7) + \frac{8*(8+1)}{2} - 64 = 28$$

$$\text{Mean of U-Statistic: } \mu_U = \frac{n_1 n_2}{2} = \frac{8*7}{2} = 28$$

$$\text{Standard Deviation of U-Statistic: } \sigma_U = \sqrt{\frac{n_1 n_2 (n_1 + n_2 + 1)}{12}} = \sqrt{\frac{(8*7)(8+7+1)}{12}} = 8.640$$

$$Z = \frac{U - \mu_U}{\sigma_U} = \frac{28 - 28}{8.640} = 0$$

Let $\alpha=0.05$, So Table Value @ 0.05 = 1.96

Calculated Value is 0

Calculated Value < Tabulated Value. **Accept Null Hypothesis.**

Decision:

It is inferred that the Samples are drawn from identical population.

Anova

The analysis of variance is a method which separates the variation ascribable to one set of causes from the variation ascribable to other set. In another words, analysis of variance is a method of splitting the total variation of data into constituent parts which measures different sources of variation.

$$\text{Correlation Factor (C.F)} = \frac{T^2}{Rc} \text{ (or) } \frac{G^2}{N}$$

Null hypothesis (H0): There is no significant difference in means of these samples.

Alternative hypothesis (H1): There is a significant difference in means of these samples.

Degree of Safety on Currency Market	12	38	49	17	5
Source of Information about Currency Market	20	35	10	45	11

Level of Satisfaction on Expert Guidance	10	40	31	25	15
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Calculation Table:

X1	(X1)^2	X2	(X2)^2	X3	(X3)^2	Total(T)
12	144	20	400	10	100	42
38	1444	35	1225	40	1600	113
49	2401	10	100	31	961	90
17	289	45	2025	25	625	87
5	25	11	121	15	225	31
$\sum X1=121$	$\sum (X1)^2=4303$	$\sum X2=121$	$\sum (X2)^2=3871$	$\sum X3=121$	$\sum (X3)^2=3511$	$\sum T=363$

Here, $N = 3 \times 5 = 15$

Correction Factor $C = T^2/N = (373)^2/15 = 8784.6$

$$SSC = \frac{(\sum x_1)^2}{n_1} + \frac{(\sum x_2)^2}{n_2} + \frac{(\sum x_3)^2}{n_3} - C = \frac{(121)^2}{5} + \frac{(121)^2}{5} + \frac{(121)^2}{5} - 8784.6 = 0$$

$$SST = \sum X1^2 + \sum X2^2 + \sum X3^2 - C = 4303 + 3871 + 3511 - 8784.6 = 2900.4$$

$$SSE = SST - SSC = 2900.4 - 0 = 2900.4$$

Anova Table

Source of Variation	Sum of Squares	Degree of Freedom	Mean Square	F
Between Samples	SSC = 0	$c-1 = 3-1 = 2$	$MSC = SSC/c-1 = 0/2 = 0$	$F = MSC/MSE = 0/241.7 = 0$
Within Samples	SSE = 2900.4	$c(r-1) = 3(5-1) = 12$	$MSE = SSE/c(r-1) = 2900.4/12 = 241.7$	
Total	SST = 2900.4	$cr-1 = (3 \times 5)-1 = 14$		

Table Value is $F_{0.05, (2, 12)} = 3.89$

Calculated Value is 0

Calculated Value < Tabulated Value. **Accept Null Hypothesis.**

Decision:

It is inferred that there is no significant difference in means of these samples.

Figure 1- Gender

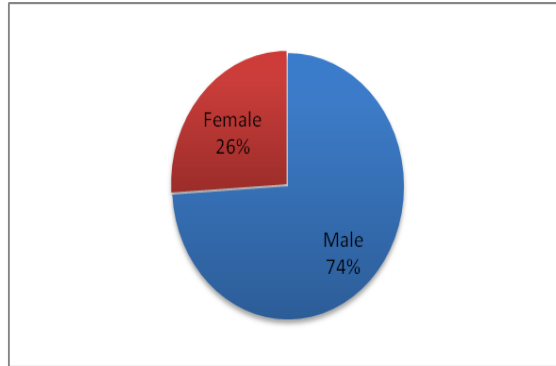


Figure 2- Educational Qualification

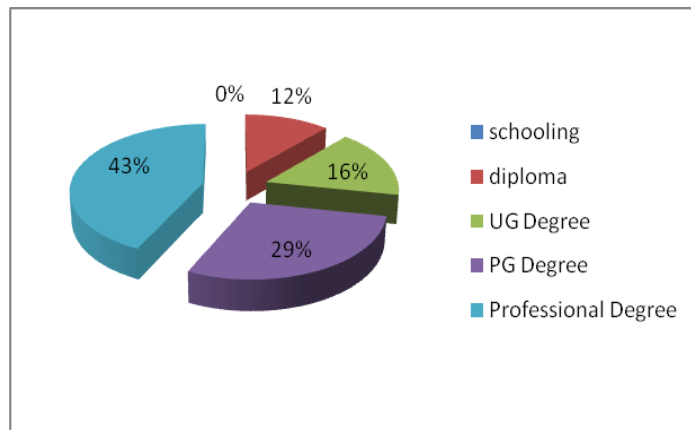


Figure 3- Occupation

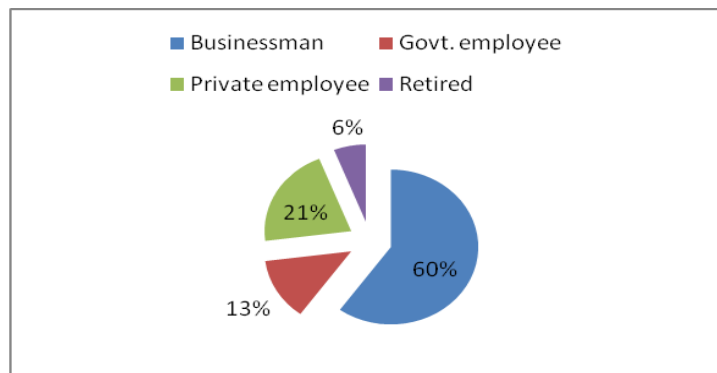


Table 4- Annual Income

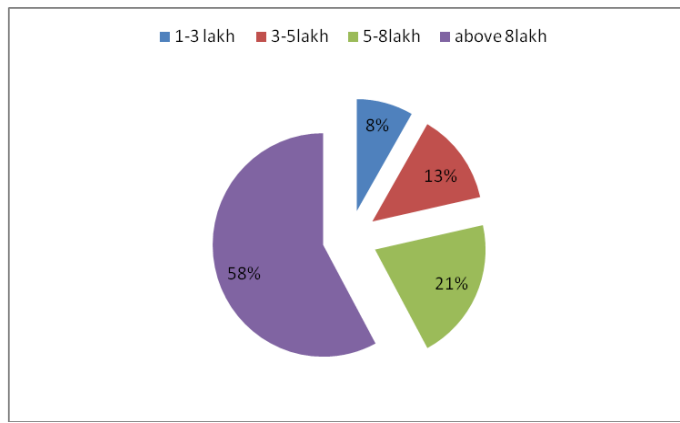


Figure 5- Dependence on Investment

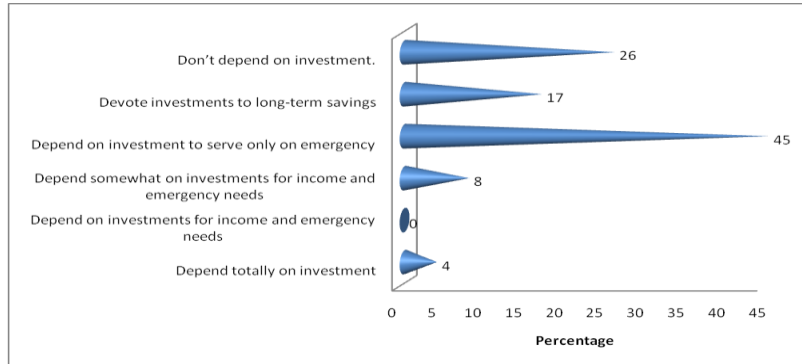


Figure 6- Investment objective

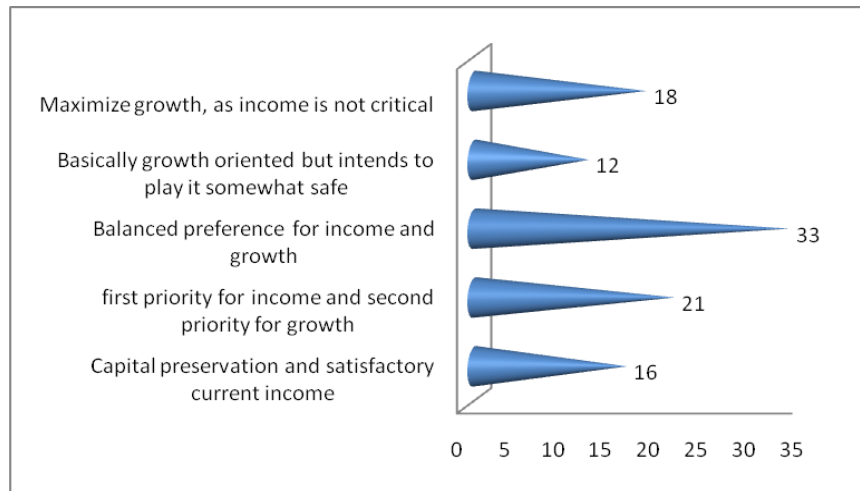


Figure 6- Investment Avenues

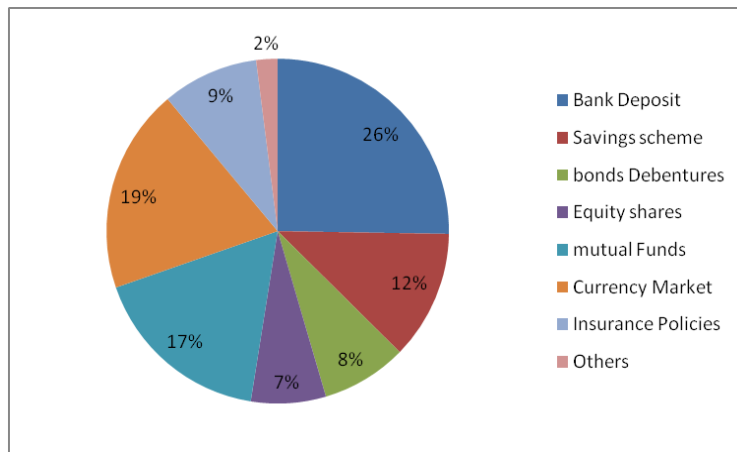
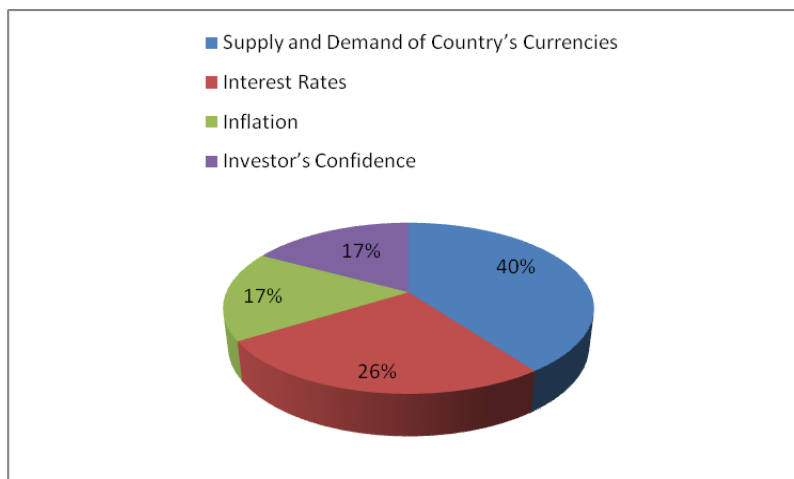


Figure 6- Factors Influencing Choosing types of Currencies



Findings

The sample size under the study consists of 74% of male and 26% are female. And 43% of respondents qualified up to professional degree and 0% are qualified up to schooling. It is found that 60% of respondents are business man and 6% of respondents are retired .The study had 58% of respondents having above 8 lakhs annual income and 8% of respondents between 1-3 lakhs annual income. Majority of the respondents believe to the statement “High risk, high return”. Nearly 41% of respondents save 20% of monthly income and 11% of respondents have 5-10% of monthly savings for investment purpose.58 % of the respondents felt investment in currency market is more risky. The survey revealed that majority of investors prefer GBP/USD pair of currencies. 45% of respondents depend on investment to serve only on emergency. 33% of respondents are have balanced preference for income and growth and 12% of respondents have objective as growth oriented but intend to play it somewhat safe. Most of the respondents monitor the risk factors and performance of investment monthly. 33% of the respondents felt satisfied with expert guidance before investment. 40% of the respondents felt supply and demand of country’s currency as factors influences in choosing type of currencies and 17% of respondent felt inflation and investor confidence as factor influences

Chi Square Analysis inferred that there is no significant relationship between Occupation of the investor's and Investor's Willingness to take Risk in Currency Market and also there is no significant relationship between Investor's Education Qualification and investors getting source of Information about Currency Market. Mann Whitney U Test inferred that the Samples are drawn from identical population. Anova analysis inferred that there is no significant difference in means of these samples

Suggestions

1. Few portions of investors have the awareness about currency market and most of the respondents they don't have sufficient knowledge to invest in the market. Financial institutions can try to use some suitable marketing strategies to promote awareness about available avenues for investment for profit and wealth maximization.
2. Government should stress the financial institutions to conduct investor guidance workshops about available avenues for investment.
3. The return and risk involved in investment in currency market should be clearly intimated to the investors through various channels of communication to avoid the misconception and loss to the investors.
4. Industry associations and NGOs to educate the investor on the need for savings.
5. Some personalized service can be given to investors to retain the investors.
6. Financial institutions should try to create suitable products for attracting the various investors and provide guidance for the investment.

Conclusion

The overall study reveals that people in Chennai are interested in currency market investment for the profit and wealth maximization. The risk and return concept plays a major role in investing. The demographic factors influence the behavior of the investors in Chennai. The high income group is ready to take more risk in investment whereas the middle and lower income group considers the risk involved in investment and safety of investment as major factor.

The marketing strategies play an important role in attracting the people for investment. The action against issues on various investment alternatives by the controlling authority will help in protecting the interest of the investors which will result a growing trend for investment in India.

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