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Option Trading a Boon or Bane for College Student

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ABSTRACT: This paper examines the impact of option trading on retail investors, particularly focusing on recent reports by SEBI and their implications.

Using data from SEBI reports, it analyzes the losses incurred by retail traders within the period of past three years and identifying the key factors contributing to these huge losses. The paper investigates strategies for how the losses could have been avoided and some actionable recommendations for traders. Additionally, it explores the increasing popularity of option trading among college students through a survey, highlighting their views and perception towards option trading. Ultimately, this paper discusses whether option trading is a beneficial opportunity or a potential risk for college students, considering both its financial rewards and inherent complexities.

I. INTRODUCTION

In recent years, option trading has gained a significant popularity among the retail traders and especially it has become a popular sport among college and university students across the country. This paper examines the effect of option trading on college students whether trading has been beneficial or a destructive for them. Considering the reports of Securities and Exchange Board of India (SEBI) this study focuses on various aspects of the effects of trading on retail investors and the causes for such performance.

Option trading is a part of derivatives segment of the stock market. Derivatives are financial instruments which derive their values from an underlying securities or assets such as stocks, currency, commodities, interest rates and other securities.

Option trading is not only a sport but also a source of side earning to many college students which has positively influenced them to know the value of hard-earned money. Even many students in finance are interested in building their career in securities market which serves as a good source of opportunity.

This study consists of a survey among college students to know their review and perspective on option trading and the reasons for their increasing interest in option trading and to know what their best practices and mistakes for their profits and losses are respectively in the field of option trading.

This study identifies the common mistakes while doing option trading also suggests some best option trading practices to improve the performance of retail traders in option trading and some guidance to college students for their initial mistakes they make while entering this risky business.

II. OBJECTIVES OF THE STUDY

- To analyse the reports of Securities and Exchange Board of India (SEBI) on option trading and the loss of retailers in recent years.
- To identify the common mistakes while doing option trading
- To know the best practices while doing option trading.
- To do a survey of college students to know their view and perspective about option trading.



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III. LITERATURE REVIEW

SEBI EQUITY F&O REPORT (2019-2022):

Securities and Exchange Board of India, also known as the Watch dog of stock market of India. Observed the behaviour of retail investors and retail traders for a period of three years and published a report in which SEBI revealed many things including the losses faced by the traders and investors and people who made profits were 10% of the total traders and investors in India.

SEBI also revealed the states which have the most profitable and loss-making traders and investors in India and the growing participation of retailers in India since post covid.

BEHAVIOURAL FINANCE – A NEW PERSPECTIVE: International Journal of Technical Research & Science

Behavioural theories are viewed as a relatively new phenomenon in the securities markets. This focuses on the behaviour and mindset of an investor and trader which makes them different from the whole crowd and the common mistakes people make in the market which caused them huge losses. The concept of investing is seen as trendy. Therefore, people tend to make illogical decisions not based on true knowledge or information of a certain investment objective.

IMPACT OF STOCK TRADING APPLICATION ON INDIAN YOUTH:

A study developed by Dr. Anita S Mane and Ms. Snehal R Khune. This study focuses on how trading in stock market in India has become highly accessible and the role played by online platforms in promotion of trading is equally important. This study also focuses on how internet has made modern day stock very accessible among youth and investors not only in India but also in the entire world.

IV. RESEARCH METHODOLOGY

The secondary data is primarily collected from SEBI reports, and other sources such as Finance journals, NSE, BSE, NSDL, CDSL and Ministry of Finance. The secondary data is used to know the impacts of option trading on retail traders and what were their behaviour and common practices while trading in options. The secondary data also focuses on what were the common mistakes done by the 90% loss making traders in India in past three years and not only this but what were the strategies of the 10% profit making retail option traders in India in past three years.

A structured questionnaire is designed, and responses are directly collected from college students through an online survey. The questionnaire is designed to know the point of view of college students about option trading and what were their behaviour and practices while trading in options. Whether they were in profit or not, whether they have the trader mindset and what factors contributed to their increased interest in option trading.

Analysis of Profit and Loss of Individual Traders dealing in Equity F&O Segment

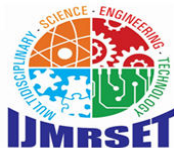
-SEBI

It is an analysis of Profit and Loss of individual traders in the market within the period of 2019 and 2022. SEBI mentioned that the loss-making traders in the derivative market are 90% and the individuals that were profitable are only 10% of the overall market.

The sample was collected from top 10 brokers in Indian Stock market and the participants in 2019 were 7.1 lakhs and there was a significant increase of participants in 2022 which was 45.2 lakhs in percentage terms it was a significant jump around 500%.

In 2019, the average loss made by all loss making traders was -1,73,646 and the average profit made by traders in the same period was 1,46,791.

In 2022, the average loss made by all the loss making traders was -1,11,216 and the average profit made by traders in the same period was 1,51,997.



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Average P&L across gender groups:
Time period 2019

Gender	Average Loss	Average Profit
Female	-1,86,809	1,62,524
Male	-1,66,330	1,30,590

Time period 2022

Gender	Average Loss	Average Profit
Female	-1,29,421	1,88,196
Male	-1,07,594	1,32,834

Observations:

- The average loss of both gender groups decreased in the 2022 and the average profits of both gender groups increased in 2022.
- Females made more profits in comparison to males in both time periods and males bear less loss compared to females in both the period.

Region-wise P&L:

- During the year 2022, the highest number of profit makers were from Kolkata region.
- Similarly, the highest number of loss makers were also form Kolkata region.

V. SURVEY RESULTS AND DISCUSSION

A survey was conducted among 60 college students form both under-graduate and post-graduate courses in management and commerce.

A questionnaire was designed, and responses were collected in online form to know their views and thinking about the option segment of the stock market.

Table 1: Age wise classification of respondents

Age group	Respondents	Percentage
18-22	47	86.7%
23-25	6	5%
25-30	6	5%
30+	1	3.3%

Table 2: Gender wise classification of sample respondents

Gender	Respondents	Percentage
Male	36	60%
Female	24	40%

Table 3: Knowledge about option trading by respondents

Question	Respondents	Percentage
Yes	33	55%
No	5	8.3%
Little bit	22	36.7%



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Table 4: Source of Knowledge about option trading

Source	Respondents	Percentage
Friends	17	28.3%
Social media	19	31.7%
Self-study	10	18.3%
Trading courses	14	21.7%

Table 5: Respondents who are actively trading in options

Active trading	Respondents	Percentage
Yes	39	65%
No	21	35%

Table 6: Time period of trading in options

Time period	Respondents	Percentage
Daily	2	3.4%
Every week	9	15%
Once in a month	17	28.3%
Only during good market conditions	32	53.3%

Table 7: Capital used in a single trade

Capital	Respondents	Percentage
500-2000	15	25%
2000-10,000	16	26.7%
10,000-50,000	19	33.3%
More than 50,000	10	15%

Table 8: Respondents who are profitable

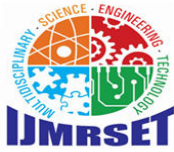
Profitable	Respondents	Percentage
Yes	43	71.7%
No	17	28.3%

Table 9: Strategies used by Individuals

Strategy	Respondents	Percentage
Price action	13	23.3%
Fundamental analysis	29	46.7%
Market news	9	15%
Friends	9	15%

Table 10: Common practices for profit making

Common practice	Respondents	Percentage
Strong psychology	8	13.3%
Good analysis	21	38.3%
Proper risk management	18	26.7%



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Limited trading	7	11.7%
Trading discipline	6	10%

Table 11: Common mistakes causing losses

Mistake	Respondents	Percentage
Over trading	15	25%
Loss recovery	14	23.3%
Emotional trading	14	23.3%
Lack of discipline	6	10%
High anxiety	11	18.3%

Table 12: Respondents who regularly watch market news

Answer	Respondents	Percentage
Yes	49	83.3%
No	11	16.7%

Table 13: Respondents who are following Fin-influencers

Answer	Respondents	Percentage
Yes	15	25%
No	20	33.3%
Sometimes	25	41.7%

Observations:

- The male participation was higher compared to female participation.
- Social media is the biggest source for stock market awareness among youth.
- Large number of individuals mostly trade during good market conditions.
- Average capital used in option is 10,000 – 50,000.

The Best practices for making profits:

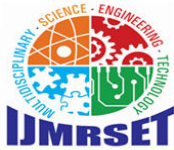
- Strong psychology
- Good analysis
- Proper risk management
- Limited trading
- Following trading discipline

Common mistakes which are causing losses:

- Over trading
- Loss recovery
- Emotional trading
- Lack of discipline
- High anxiety

The best practices are not only making profits for college students but these similar traits are found in the 10% profit making option trader in the stock market.

Similarly, the common mistakes which are causing losses are found in most of the 90% loss making traders in the Indian stock market.



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Option Trading: Boon or Bane for college students

Option trading is a segment of stock market which involves a very high amount risk which not only affects the finances of an individual trader, but it equally affects the mental and physical health of an individual.

Trading will be considered as a boon for those who are making profits in the market and similarly it will be a bane for those who are bearing losses in the market.

However, it depends on individual-to-individual basis how they are considering option trading as a boon or bane for themselves.

VI. CONCLUSION

As per SEBI reports, 90 per cent of traders are making losses and 10% of individuals are making profits in the market. Option trading is a highly risky business which affects not only the financial health of individuals but also highly affects the physical health and mental health of individuals. Option trading whether it is a boon or bane for individuals it how individuals make it for themselves.

Becoming the top 10% individuals of the stock market requires a lot of hard work, patience and strategic thinking along with a good plan.

However, option trading is not the only segment which gives high level of returns in the stock market. Individuals can be profitable using their decision-making ability and hard work.

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