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Factors Influencing Risk And Return Involved In Short Term Trading Mechanism Among Equity Investor

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Abstract
The present study is undertaken to ascertain the factors that are influencing equity investor to undertake short term trading in equities, resulting into generation of significant return and also exposing to huge risk of loss of investment. Further an attempt is made to understand the sources of information that leads to short term trading and to identify the type of instrument used in the process of achieving the objectives. For this study we have used online questionnaire and circulated to all those equity investors trading in stock market. In all 159 responses was collected and analyzed using percentage, correlation technique. The study found that majority of the equity investors who have 1 demat account, having trading experience of less than 2years, investing about 5to 10% of their monthly income, wishing to make use of all corporate actions for making profits are the one who are doing short term trading. Moreover, factors such as Companies specific news leading to crash in share price, Corporate announcements like buyback, bonus, stock split, M&A, etc. are influencing to participate in short term trading. As the urge to make quick profits in shortest possible time is the objective behind undertaking short term trading. This may sometime generate negative returns, if the source of information turns to be misleading.

Key words: *Risk, Return, Short term trading, equity investor*

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I. Introduction:

Individual Earn their income and portion of it gets saved, this saving gets channelized into investments into those avenues. Stock markets is medium which facilities the conversion of savings into investment, thus helping in economic development. The stock exchanges offer a completely automated and computerised screen-based trading environment. The system is open, allowing buyers and sellers to view all deals and submit orders that meet their specific needs. Instead of considering an asset's long-term fundamentals, short-term trading mostly concentrates on price action. This trading strategy looks for market volatility around significant economic data releases, corporate earnings, and political events in an effort to capitalise on sudden changes in market prices. In the stock market or futures market, taking position of trade and liquidating it with few days/month is termed as short term trading. The swing trading and trend following schools of thinking are the two main ones. Traders undertaking trade sell off their position by the end of trading hour, making day trading a very short-term method of trading. Due to the stock market's occasionally erratic volatility, short-term investing can be dangerous and unexpected. A stock's price can be significantly impacted numerous factors during the course of a day or a week. Consumer attitudes, company news, and reports all have the potential to positively or negatively impact the direction of the stock price. In an article published in a reputed magazine several years ago, Graham, Benjamin (2003) claims that "one should buy stock as though they are buying their daily needs and not as luxury items or fashionable items." This entails conducting the necessary research to identify the best prospects and eliminating sentiment and extraneous factors from the decision to purchase or sell. One cannot succeed in the near run by merely reading financial statistics or monitoring the news. As most of the publicly available information gets factored in the same price. James Cramer (2009) A stock with low volume might go up or down by being bought or sold. Large fund house by virtue of their expertise can monitor and control changes in share price every minute wise, whereas small investors have minimal impact. In light of this, the current study is designed to identify the variables influencing equities investors' decision to engage in short-term trading..

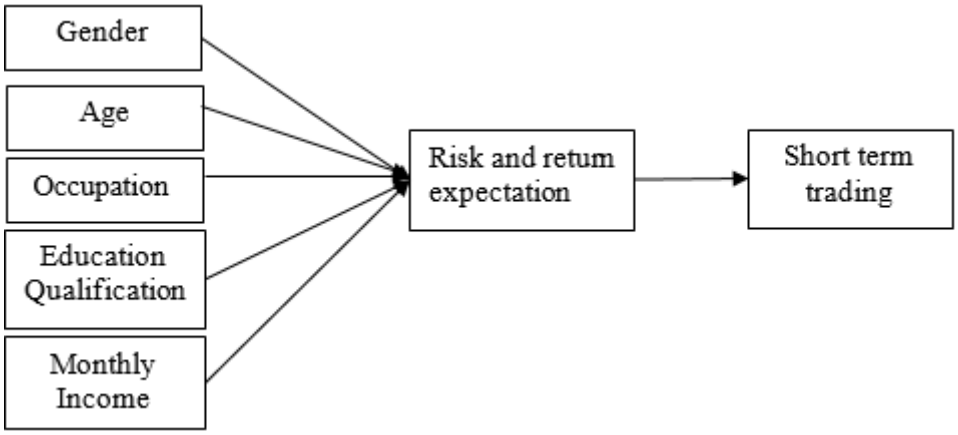
Objectives:

- To examine the factors influencing short term trading
- To determine the association between demographic factors and the risk and return involved in short-term trading.
- To know the type of equity instrument used for short term trading activities.

II. Literature Review:

People always react to unexpected news, but their reaction is more than required, as DeBondt and Thaler (1988) demonstrate. Market overreaction is ascribed to individual investors' overconfidence, which causes bad judgement. In their study, Shleifer and Summers (1990) state that majority of the trader who have no access to information follow herd mentality and off load their position. This leads to volitality in trading volume and price thus resulting into unexpected increase in share price. Barber and Odean (2000) note that excessive self-assurance can lead to high levels of speculation because overconfident investors make investments based on the assumption they are well informed and have first access to news. According to Bodie et al. (2000), investor behaviour might occasionally be myopic and short-sighted in that it plans for only one similar holding term and disregards anything that might occur after that period has ended. Using empirical analysis, Wu, Zhao, and Wu (2002) discovered that relationships between risk and return and their corresponding correlation tend to exist only in the long run. And that the share price is true reflection of companies fundamental factors and not merely due to speculation as found by Chan, Wang, and Wei (2004). According to Perera and Kulendran (2016), variation in market affect stock price leading to either rise or fall. Investors should take this into account before investing in stocks.

Conceptual Model of Demographic Factors influencing Risk & Return Expectation in Short Term Trading Mechanism



Research Methodology:

The data is collected using questionnaire. The questionnaire was administered using google form and was sent through whatsapp group to various respondent using random sampling method. In all 225 respondent filled the questionnaire. Out of which 159 respondent have given complete response for all the questions asked. Using cross tabulation, correlation technique the data was analysed.

Hypothesis:

H1: Short-term trading does not significantly correlate risk with expected returns.
H2: The anticipation of returns from short-term trading and demographic factors are not significantly correlated.
H3: Demographic factors and short-term trading risk expectations are not significantly correlated.

Analysis:

Table 1 displays the respondents' demographic information.

Variables	Particulars	Freq.	%	Variables	Particulars	Freq.	%
Gender	Male	123	77.4	Occupation	Student	61	38.4
	Female	36	22.6		Self Employed	33	20.8
	Total	**159**	**100.0**		Private firm	50	31.4
Age	18-25	77	48.4		Government	3	1.9
	25-30	24	15.1		Retired	2	1.3
	30-35	28	17.6		others	10	6.3
	35-40	8	5.0		**Total**	**159**	**100.0**

	above 40	22	13.8	Monthly Income	Less than 25000	76	47.8
	Total	**159**	**100.0**		25000-50000	40	25.2
Education	SSLC	5	3.1		Above 50000	43	27.0
	PUC	3	1.9		**Total**	**159**	**100.0**
	Graduate	71	44.7	Marital Status	Married	67	42.1
	postgraduate	72	45.3		Unmarried	92	57.9
	Professionals	7	4.4		Total	159	100.0
	others	1	0.6	No. of Demat A/c	1	116	73.0
	Total	**159**	**100.0**		2	27	17.0
					More than 2	16	10.1
					Total	**159**	**100.0**

Source: Research output

Table 1 provides information about the respondents' demographic characteristics and it is observed that 77% of them are male respondent, with highest percentage of them being in age group of 18 to 25yrs (48%), 90% of them being Graduate / Post Graduate, majority of them working are students (38%) followed by working group in private firm(31%) and 21% being self-employed. More than 50% of them are above Rs. 25000 income group and 58% of the are unmarried. Among the respondents 73% of them have 1 Demat account. This shows all the respondent do possess Demat account which is one of the pre requisite for trading in stock market.

Table 2 showing respondent Trading Practices & Mechanism of Trading

Trading Experience	**Frequency**	**%**	**% of Monthly Income invested in Equities**	**Frequency**	**%**	**Mode of Trading**	**Frequency**	**%**
less than 1 year	65	41%	5-10%	114	72%	Using Mobile App	139	87%
1-2 year	57	36%	10-15%	31	19%	Instruct the broker	20	13%
2-5 year	29	18%	15-20%	9	6%	Total	159	100%
More than 5 year	8	5%	More than 20%	5	3%			
Total	159	100%	Total	159	100%			

Source: Research output

From table 2 it is found that that 41% of respondent have less than a year of trading experience and about 36% of the have between 1 to 2 yrs of experience. Considering their monthly income vast majority of 72% of them invest 5-10% of their monthly income into equity trading. Thanks to mobile apps and smartphone devices a majority of the respondents (87%) do trading using mobile app.

Table 3 displays respondents' attitudes and knowledge of short-term trading.

Have you done Short Term Trading In Equities?			**Reason for Not doing Short Term Trading in Equities**			**Concept of Short Term Trading in Equities**		
Response	**Frequency**	**Percent**	**Reasons**	**Frequency**	**Percent**		**Frequency**	**Percent**
yes	127	80%	Risk	11	34%	Buying and selling on the same day	82	24.77
No	32	20%	Trust	1	3%	Buying today and selling tomorrow	65	19.64
Total	159	100%	No capital to Trade	1	3%	Buying to sell within a week	72	21.75
			Lack of Knowledge	12	38%	Buying and selling after the IPO Listing	28	8.46
			No Personal interest	5	16%	Buying and selling on expiry date	51	15.41
			Bad Experience in the past	2	6%	Buying and selling after few months	22	6.65
			Total	32	100%	All the Above	11	3.32
							331	100.00

Source: Research output

From table 3 it is found that out of total respondent 159, 80% of them have done short term trading in equities and rest 20% have not done short term trading in equities, among these 38% said due to lack of knowledge and 34% of them due risk involved, they have not done short term trade. Another significant observation is on the knowledge of short term trading, it is found that only 3% of the respondents are fully

aware on concept of short term trading, where are 25% of them think buying and selling on same day is treated as short term trade, 22% of them think buying stock to sell within a week as short term trade, 20% feels Buying today and selling tomorrow is short term trade.

Table 4 displays the information sources and factors affecting short-term trading.

Factors influence Short Term Trading	**%**	**Information source for trading on the short term**	**%**
Companies specific news leading to crash in share price	20%	Newspaper	15%
Corporate announcements like buyback, bonus, stock split, M&A, etc.	18%	Social media influencer	12%
External Factor	16%	News Channel	17%
Govt. Policies and regulations	16%	Friends opinion	13%
Festive season	17%	Stockbrokers opinion	16%
Social media influencer	12%	Stock tips received through WhatsApp/Email/SMS	11%
Total	100%	Self-analysis	16%
		Total	100%

Source: Research output

From table 4 we infer that 20% of the respondent gets influenced by company specific news leading to crash in share price, which trigger them to use the opportunity to buy the shares and sell it out with few days once positive news trigger. 18% of them get influence by corporate announcement like buyback, bonus, stock split and M&A. Moderate percentage of about 12% get influence by social media influencer leading to taking position in short term trade. When it comes to source of information 17% of the respondent use news channel, equal percentage 16% of them news stock brokers opinion and also rely on self-analysis for undertaking short term trading.

Table 5 shows Risk and Return Expectation from short term trading

Return Expectation	**Frequency**	**Percent**	**Risk Expectation**	**Frequency**	**Percent**
Min 5%	25	20%	Min 5%	93	**73%**
5-10%	71	**56%**	5-10%	26	20%
10-20%	23	18%	10-20%	6	5%
Above 20%	8	6%	Above 20%	2	2%
Total	127	100%	Total	127	100%

Source: Research output

From table 5 it is found that 56% of the respondent expect short term return of 5 to 10%, 18% of them expect 10 to 20% return, whereas 73% of them expect to assume min 5% risk and 20% of them expect 5 to 10% risk by undertaking short term trading. This shows risk and return expectation is inversely related. As investor what to earn more profit but at lesser risk in short term trading. To achieve this objective the investor has to pick right stock based on proper information source.

Table 6 showing preference for short term equity instrument, highest return and highest loss generating instrument

Short Term Trading Instrument	**Most Preferred Instrument**	**Highest Short Term Return**	**Highest Short Term Loss**
Derivatives	20%	15%	36%
Delivery	26%	32%	17%
BTST	27%	34%	16%
Intraday	28%	19%	31%
	100%	100%	100%

Source: Research output

From table 6 we infer that Buy Today Sell Tomorrow (BTST) and intraday are the most preferred short term trading instrument used by respondent i.e 28%, whereas 26% of them use delivery based and 20% use Derivatives for short term trade. On further analysis it is noted that maximum return is earned through BTST trade and Delivery Based i.e 34% & 32%. Whereas highest percentage of loss is incurred using Derivatives and Intraday trade. i.e 36% & 31%. This shows that among the equity instrument Derivatives trade has generated highest loss and BTST has generated highest return.

Table 7 showing correlation between risk and return expectation from short term trading

Correlations		Return Expectation from short term trading	Risk Expectation from Short term Trading
Return Expectation from short term trading	Corr.value	1	.220*
	Sig. Value		.013
	N	127	127
Risk Expectation from Short term Trading	Corr.value	.220*	1
	Sig. Value	.013	
	N	127	127
*.5% Significance level			

Source: Research output

From the correlation table above, we can deduce that among respondents who engage in short-term trading, risk and return expectations are positively correlated. Greater return expectations result in taking on more risk. H1 is rejected because the p-value at the 5% level of significance is less than 0.05, or 0.13. The alternative hypothesis, which is accepted, is that there is a positive and significant relationship between risk and return anticipation from short-term trading.

Table 8 Correlation Matrix showing demographic variable and their influence on risk and return expectation in short term trading

		Gender	Age	Edu.	Occup.	Monthly Income	Return Expectation from short term trading	Risk Expectation from Short term Trading
Gender	Pearson Correlation	1	.037	-.004	.208**	-.045	.035	.021
	Sig. (2-tailed)		.644	.960	.008	.571	.699	.811
	N	159	159	159	159	159	127	127
Age	Pearson Correlation	.037	1	-.044	.442**	.593**	-.005	-.234**
	Sig. (2-tailed)	.644		.583	.000	.000	.955	.008
	N	159	159	159	159	159	127	127
Edu.	Pearson Correlation	-.004	-.044	1	-.142	.027	.087	-.007
	Sig. (2-tailed)	.960	.583		.075	.738	.329	.936
	N	159	159	159	159	159	127	127
Occup.	Pearson Correlation	.208**	.442**	-.142	1	.418**	-.022	-.252**
	Sig. (2-tailed)	.008	.000	.075		.000	.808	.004
	N	159	159	159	159	159	127	127
Monthly Income	Pearson Correlation	-.045	.593**	.027	.418**	1	.141	-.105
	Sig. (2-tailed)	.571	.000	.738	.000		.115	.239
	N	159	159	159	159	159	127	127
Return Expectation from short term trading	Pearson Correlation	.035	-.005	.087	-.022	.141	1	.220*
	Sig. (2-tailed)	.699	.955	.329	.808	.115		.013
	N	127	127	127	127	127	127	127
Risk Expectation from Short term Trading	Pearson Correlation	.021	-.234**	-.007	-.252**	-.105	.220*	1
	Sig. (2-tailed)	.811	.008	.936	.004	.239	.013	
	N	127	127	127	127	127	127	127
**. Correlation is significant at the 0.01 level (2-tailed).								
*. Correlation is significant at the 0.05 level (2-tailed).								

Source: Research output

From table 8 it is found that Gender, Education and Monthly Income has positive and insignificant relation with return expectation from short term trading at 5% and 1% level of significance. P-value is >0.05 for all the variables.Whereas Age and Occupation has negative and insignificant relation with return expectation from short term trading at 5% and 1% level of significance. Hence H2 is accepted, that is there is no significant association between demographic profile of respondent with return expectation. Whereas, Age and occupation has negative and significant relationship with risk expectation at1% level of significance as p-value is less than0.01. While Education and monthly income has negative but insignificant relation with risk expectation at 5% and 1% level of significance. Only gender has positive and insignificant association with risk expectation at 5% and 1% level of significance. Hence H3 is partially accepted for Age, occupation whereas it is rejected for Education Monthly Income and Gender

III. Conclusion:

Global capital markets have made it substantially easier for citizens across the globe to channelize their savings into investment. With many ordinary investors actively engaged, the Indian capital market is on the rise. Financial service companies can gain significantly from the enormous opportunity to reach retail investors in the Indian equity market if they incorporate the factors that have been identified as influencing this investor's trading behaviour into their product/service offerings and specifically highlight them in their marketing campaigns. Using primary data gathered from retail investors of various ages, professions, and demographics, we have identified the elements that influence and effect risk and return of retail investors' trading behaviour in the Indian equities market. The study's findings indicate that factors like company-specific news that causes share prices to crash and corporate announcements like buybacks, bonuses, stock splits, and M&As can have an impact on traders' decisions to trade. It is also clear that most traders are young people with little experience in trading and a limited understanding of short-term trading, and brokers' advice can have a significant impact on how retail investors behave when it comes to trading. The study's findings provide traders with information.

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