

ANALYTIC AND CONCEPTUAL STUDY ON THE ROLE PLAYED BY THE BROKERS IN HEDGING THE RISKS USING GOLD FUTURES

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ABSTRACT

The objective of a commodity broker is that he will provide not only information about prices and deals, but snippets of gossip about who is doing what – and why. Traders are always focused on supply and demand aspects of physical commodities in which they trade and as well as the larger macro-economic picture, so it is important to assess what other competitors, are doing in the market. Some brokers not only provide a lot of value-added service in providing not just price information – but offering lots of ideas – on the economic backdrop, current and future price trends, etc. To understand their role in hedging the gold futures, whether they influence in investing in gold futures. To know likert scale questionnaire prepared, collected data analyzed by factor analysis using SPSS software. Interestingly factors observed about commodity brokers.

Key Words: Commodity Broker : Gold futures : Trading Account :Floor Broker

INTRODUCTION

A future is simply a deal to trade gold at terms prices decided now, but with a settlement day in the future. That means you don't have to pay up just yet (at least not in full) and the seller doesn't need to deliver you any gold just yet either. It's as easy as that.

The settlement day is the day when the actual exchange takes place - i.e. when the buyer pays, and the seller delivers the gold. It's usually up to 3 months ahead.

Most futures traders use the delay to enable them to speculate - both ways. Their intention is to sell anything they have bought, or to buy back anything they have sold, before reaching the settlement day. Then they will only have to settle their gains and losses. In this way they can

trade in much larger amounts, and take bigger risks for bigger rewards, than they would be able to if they had to settle their trades as soon as dealt.

DEALING GOLD FUTURES

To deal gold futures you need to find yourself a futures broker. The futures broker will be a member of a futures exchange. The broker will manage your relationship with the market, and contact you on behalf of the central clearer to - for example - collect margin from you.

Your broker will require you to sign a detailed document explaining that you accept the significant risks of futures trading. Account set-up will take a few days, as the broker checks out your identity and creditworthiness

RESEARCH METHODOLOGY

Objectives

- To know the types and role of commodity brokers
- To know the factors influence by the broker to hedge risk using gold futures
- To study the role of brokers in the investment decisions in gold futures

DATA COLLECTION

Framework: - Analytical and Conceptual

Type of data

Primary Data: Through Structured questionnaires

Secondary Data: The secondary data has been collected through various journals, company websites & reports. Secondary data is based on information gleaned from studies previously performed by various journals.

Sample used in the study -

The data is collected from various age groups, educational background, occupation, income range, in order to bring in common conclusion.

Sampling Technique: Non Probability Sampling - Convenience Sampling, likert scale

Sample Size: 450 respondents

Research tools:- SPSS software

Limitation:-

- The study takes into considerations only working population
- The study was limited for gold investors.

The principle role of exchanges is to regulate and control futures and derivatives trading through a membership system. Commodity futures date back to the trading of rice futures in Japan in the 1600's – but the underlying principles of commodity futures go back a long way further. Commodity markets have been around for some thousands of years and the degree of their formality has been dependent on the political, social and economic environment prevailing at the time.

The term commodity broker includes many different market participants from a regulatory point of view these days. The classic definition is a firm or an individual that executes orders to buy or sell commodity futures contracts, options or similar derivatives on behalf of clients. Commodity brokers charge a commission for their services. The clients of a commodity broker are either hedgers who use commodity contracts to manage financial risk or investors, traders or speculators who assume price risk from others in hopes of profits.

TYPES OF COMMODITY BROKERS

Firms and individuals who are often collectively called commodity brokers include:

Floor Broker/Trader: an individual who trades commodity contracts on the floor of a commodities_exchange. When executing trades on behalf of a client in exchange for a commission he is acting in the role of a broker. When these individuals execute buying or selling orders for customers they act as brokers. However, when they buy or sell for their own account they act as traders. Therefore, these individuals play a dual role in the markets. As many commodity futures markets have moved from pit or floor trading to electronic trading platforms, the role and numbers of floor brokers or traders have declined over recent years.

Futures Commission Merchant (FCM): a firm or individual that solicits or accepts orders for commodity contracts traded on an exchange and holds client funds to margin, similar to a securities broker-dealer. Most individual traders do not work directly with a FCM, but rather through an IB or CTA.

Introducing Broker (IB): a firm or individual that solicits or accepts orders for commodity contracts traded on an exchange. IBs do not actually hold customer funds to margin. Client funds to margin are held by a FCM associated with the IB.

Commodity Trading Advisor (CTA): a firm or individual that, for compensation or profit, advises others, on the trading of commodity contracts. They advise commodity pools and offer managed futures accounts. Like an IB, a CTA does not hold customer funds to margin; they

are held at a FCM. CTAs exercise discretion over their clients' accounts, meaning that they have power of attorney to trade the clients account on his behalf according to the client's trading objectives. A CTA is generally the commodity equivalent to a financial advisor or mutual fund manager.

Commodity Pool Operator (CPO):¹ a firm or individual that operates commodity pools advised by a CTA. A commodity pool is essentially the commodity equivalent to a mutual fund.

Registered Commodity Representative (RCR)/Associated Person (AP): an employee, partner or officer of a FCM, IB, CTA, or CPO, duly registered and licensed to conduct the activities of a FCM, IB, CTA, or CPO. This is the commodity equivalent to a registered representative.

DATA ANALYSIS AND INTERPRETATION

Socio Economic profile of investors

Demographic features		Frequency	Percent
Gender	Female	163	36.2
	Male	287	63.8
	Total	450	100
Age Group	31-50 Years	229	50.9
	Above 50 Years	44	9.8
	Less than 30 Years	177	39.3
	Total	450	100
Marital Status	Married	334	74.2
	Unmarried	116	25.8
	Total	450	100
Educational Qualification	Post Graduate	231	51.3

	Under Graduate	138	30.7
	Up To PUC	81	18
	Total	450	100
Occupation	Business	77	17.1
	Employed	235	52.2
	Others	32	7.1
	Profession	106	23.6
	Total	450	100

The demographic data tabulated according to gender breakdown, nearly 63.8% of the investors are of Male and 36.2 % are female investors. By this data we can analysis more men attracted towards trading compared with female, but comparing with previous study, female investors are yearly increasing and attracted towards trading. Approximately 50% investors are of the age group belongs to 31-50 years who are more keen in investment and most them will be settled in career and needs to invest in diversifiable portfolio to gain more return. And most of them are married with 75 %, and the investors are highly qualified and most of them are employed about 52.2% and 17.1 % are having business respectively.

Table shows the Role of brokers towards gold future based on Gender, Marital Status, Income Level

Factors	1	2	3	4	5	6	7	8

Gender	Female	3	3	3	3	3	3	3	3
	Male	3	3	3	3	3	3	3	3
Marital Status	Married	3	3	3	3	3	3	3	3
	unmarried	3	3	3	3	3	3	3	3
Income Level	Less than Rs 3 lakhs	3	3	3	3	3	3	3	3
	Rs.3 Lakhs to Less Than 6 Lakhs	3	3	3	3	3	3	3	3
	Rs 6 Lakhs to Less than 9 Lakhs	3	3	3	3	3	3	3	3
	Rs.9 Lakhs And Above	3	3	3	3	3	3	3	3

As per the likert's scale, the role of brokers in deciding on investing in gold futures , respondents tend to neutral irrespective of Gender , marital status, income level. Education qualification. The investor are not able to judge whether the brokers are real helpful in getting information , giving good quality of advice, grievances handling etc.

Table showing the role of brokers towards investors in gold future

FACTORS	Frequency
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	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Investors receive good quality advice from distributor/broker	19	173	177	67	14
2. There is no hindrance in getting information	12	214	152	35	37
3. Do you get the required amount of information from broker in which you are investing ?	37	176	145	67	25
4. Please specify the response of your broker when you approached them to invest in Gold future Scheme when you approached them to invest in Gold future Schemes	28	160	210	33	19
5. Investment decisions in gold future based on brokers' expert's' recommendation.	26	164	167	73	20
6. Analytical skills of broker is supporting the investment decision	56	100	187	99	8
7. Too many formalities imposed by Broker for technical support	29	193	173	41	14
8. Grievances handling by broker while investing in gold future are effective	40	156	175	64	15

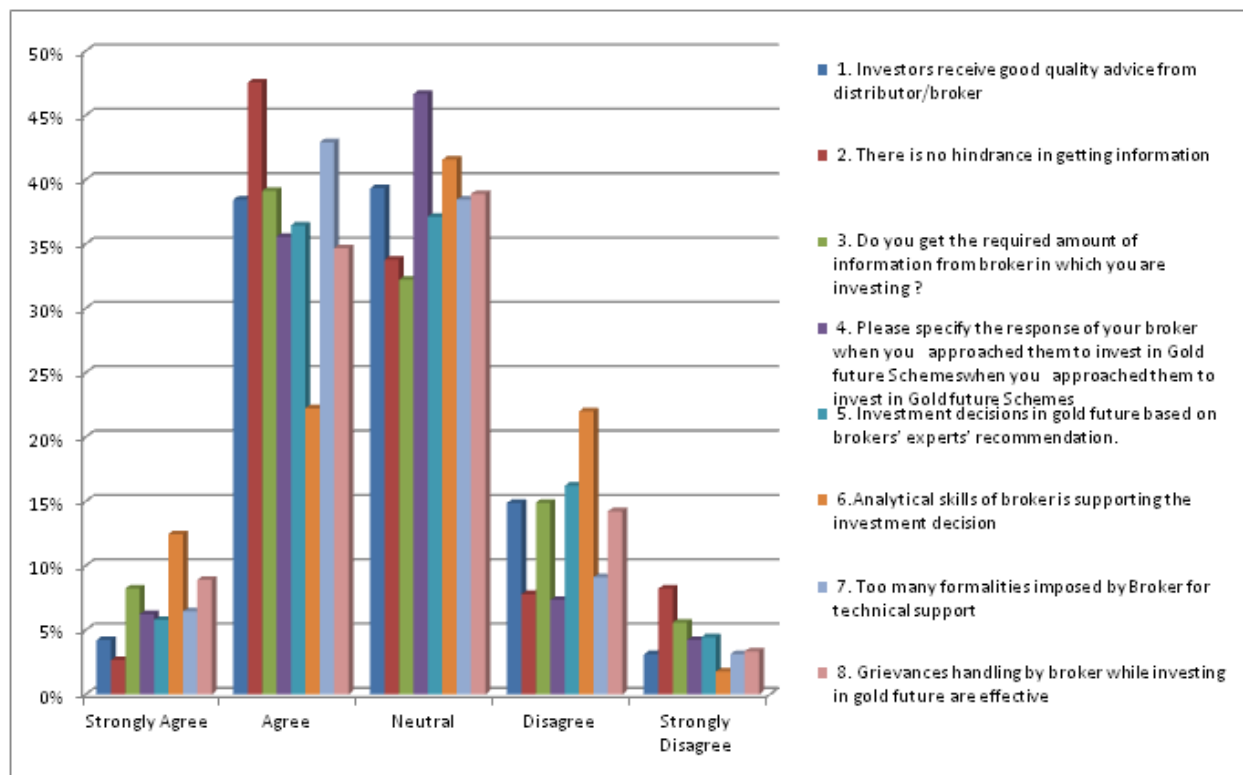


Fig :- Responses to likert scale to know the role of brokers in investing in gold futures

INTERPRETATION

As per likert scale, generally it is considered that investors invest in any portfolio with concern from the brokers or experts opinion. To understand this, a five point likert scale is used having items like scale having items like strongly Disagree, Disagree, Neutral (neither agree nor disagree) ,Agree, and Strongly Agree

Interesting facts observed during the survey, 48% of respondents are getting information without any hindrance from brokers, but for all other factors respondents agree only 25% to 45 % for the factors related to the broker's role. As most of them opted for neutral, disagree and strongly disagrees for the role of brokers in decision making. The reason might be it's a OTC market , the role of brokers limited for entry and exit from the futures

CONCLUSION

Interesting facts observed in this study, the respondents are getting proper information regarding the commodity market and the future instruments from the broker. But they are confused whether the commodity brokers are really helping them to invest in gold futures and hedging risk through it. Brokers based on respondents bearing capacities influencing the investors to hedge using gold futures.

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