

# A STUDY ON MANAGING RISK USING FINANCIAL FEATURES (A BEHAVIORAL APPROACH)

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## ABSTRACT

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The Derivative industry has propelled into a lucrative industry with much wealth to gain. But where there is high return, there is high risk. The fact of the matter is: how well do we take the risks.

The art of managing risk is an interesting area to focus on. Ever since the Asian Economic Crisis, the survivors – there were a handful of them, were viewed as strong. Most of the other companies, especially those with high leverage and unprotected exposures were subjected to high premium risks. Typically, there were a horde of displeased shareholders. Restructuring was called for. CEOs were sacked. CFOs were fired. How could this happen? The answer lies in a simple marketing saying: *Understand your customer's need.*

True enough; seldom do we pay attention to what the shareholders are signaling to the company. Naturally, shareholders are very concerned about risk. Sure, they can diversify. But if the norms of industries in handling risks are the same – it's like putting all the eggs in one very big basket. There are factors that influence investor attitude towards risks. These factors can basically play a big role for business to identify and capitalize on the factors. This is the general purpose of this study. To add *'flavor'* to the research, a hedging tool known as financial futures is being sought out and looked into.

The expected outcome of my research should very well be aligned with the norm. There are various statistical tests carried out between classes against the dependent variable. There are three classes. Each has at least one independent variable, and it is tested for any relationship (between each sub-variable and the independent variable). The findings of my research are detailed in the book. However, the results are not the same as the norm as a low sample size of 50 people was solicited during the course of data collection. The response rate was 90%. Many of the respondents have heard about futures as a hedging tool. The literature review that I have solicited states that futures is a rapidly growing derivative tool, spurned by speculation per se. but the Malaysian financial futures markets are very limited to inter-bank trading. A large source of information on financial futures is from the United States. Trading of derivatives in this continent is highly active.