Chapter 2

CHAPTER 2

REVIEW OF LITERATURE

This chapter reviews and synthesizes books, scholarly articles, and other sources related to the area of research and provide a summary of them by critically evaluating these works in relation to the research problem being examined. The reviews are grouped and presented under the following heads:

- Studies on trading success
- Studies on factors that influence trading success
    - Studies on Demographic factor
    - Studies on Personal Habits and Lifestyle factor
    - Studies on Trading Knowledge and Analytical factor
    - Studies on Trading Behaviour
    - Studies on Risk Management factor
    - Studies on Emotional or Psychological factor
    - Studies on Social factor
    - Studies on Technology factor

2.1 STUDIES ON TRADING SUCCESS

Jordan, D. J., Diltz, J. D. (2003) studied a sample of day traders in the U.S. and analysed if they are successful. They found that two third of the traders fail by losing money. Less than 20 percent of the day-traders manage to make decent profits. This indicates that it is not as easy as what the industry claims to be a successful day trader. Aspiring and novice day-traders should carefully think about why they will be among the 20 percent of them who are successful. The new traders should ensure that they have sufficient early capital to endure the first few months of the learning period that the industry recommends is essential to become successful. In contrast Garvey, R., & Murphy, A. (2005) who also examined the trading performance of day traders in the U.S. found that more than half of the respondents in their sample were successful. They also reported that there was not much of a difference in trading characteristics (such as the kind of stocks they picked, trading time and location) between good and bad performing traders.

Barber et al. (2004) analysed the trading performance of individual traders in Taiwan Market and report that in a period of six months' time, eight out of every ten trader lose money by trading in the market. Only very few of them who trade heavily possess the ability to make consistent profits in the long run.

Barber B.M., et. al. (2008) analysed the complete trading history of all type of investors in the Taiwan market and found that the trading losses incurred by the retail individual investors are equal to 2.2% of the country's Gross Domestic Product or 2.8% of the total individual income. This loss can be attributed to the aggressive nature of the retail traders. Institutional investors (active and passive) on the other hand are quite profitable and there is a rise in their yearly performance of 1.5% points. Out of the overall institutional profits, half of it is reaped by the foreign institutional investors. Barber, B. M., et. al. (2014) again stated that less than 1% of the day trading population in Taiwan market is able to predictably and reliably earn positive abnormal returns after transaction cost.

Ryu, D. (2012) studied the characteristics of day traders and their day trading performance in the KOSPI 200 futures market in South Korea using a high-quality data set. They classified their sample into individual, domestic and foreign institutional investors and reported that domestic individual traders suffer large losses from day trading and those who trade very often and heavily are more probable to suffer such losses. In contrast to individual day traders, who account for the largest portion of total day trading activity but perform poorly, domestic and foreign institutional traders usually make significant profits through day trading though they only contribute a small portion of entire day trading activity in the KOSPI 200 futures market. They also highlight that there is a huge spread between the returns generated by top and bottom ranked speculators.

Schwager, J. D. (2012, p.180) interviewed Tom Baldwin, A courageous floor trader. Tom says that less than 20% of the traders who start trading stick around for more than five years, against losing their capital and falling out. Among them, only 1% is successful in earning and retaining more than a million. He also says that absence of hard work is the reason for failure among the losing traders. Most of them think that there is 50/50 chance, just like a toss of a coin on any trade and nothing more than that.

Lefevre, E. (2018, p.256 and 245) Jesse Livermore, the most popular stock trader says that it is impossible for any trader to consistently and endlessly beat the market no matter how experienced he is. Speculation can never be safe 100 percent and therefore the possibility of losing trades is always present. There are thousands of traders who speculate in the market but very few are eventually successful. Ignorance, fear, greed and hope are the four deadly enemies of a speculator.

Giles Coghlan (2020) it is crucial that the retail traders have a complete understanding about the working of the financial instruments that they trade. The author claims that 67% of the retail participants in the CFD market lose money.

Thus, from the above literatures Jordan, D. J., Diltz, J. D. (2003), Barber et al. (2004, 2009 and 2014), Ryu, D. (2012), Schwager, J. D. (2012) and Lefevre, E. (2018), it is very evident that the retail or individual day-traders in the U.S, Taiwan and Korean markets are mostly unsuccessful. Very few of them (generally less than 20%) manage to make consistent profits in the long-run.

2.2 STUDIES ON FACTORS THAT INFLUENCE TRADING SUCCESS

Buffett, W., Graham, B. (1985) The legendary investor, Warren Buffett, in his preface to the fourth edition of the book “Intelligent Investor” have mentioned that to be a successful investor over lifetime one does not require unusual IQ, good business acumen or inside information. All that is required is intelligence for making appropriate decisions and emotional control. Sperandeo, V. (1998) stated that change is the only constant in the market. It requires discipline, research, attention to detail and continuous study to be a successful trader.

Thomas Oberlechner (2004) studied the perception of forex professionals about the important characteristics of successful traders. The study reported that out of 23 characteristics, Ability to react quickly followed by trading discipline, experience in the market, attentiveness and emotional control was rated highly important, whereas Social skills, computer skills and organisational skills was not considered to be important for a successful trader.

Hamzei, F. (2010) stated that the successful traders get to the top by identifying the strategy that best suits them, none of the traders agree that they know the equity market completely. Even master traders who have moved on to greater levels of sophistication understand the need to conquer the basics and grow beyond them. Setting achievable goals, strong emotional control, adaptability to varying market situations, accepting responsibility, staying away from revenge trading, developing a trading plan, guarding the capital, weighing probabilities and being an ardent learner of the market are the skills that enable a person to be a leading trader.

Schwager, J. D. (2012) mentioned that many naive traders are lured into the stock and derivatives market as this is a place where people believe that it is possible to make millions with very little investment. The hard reality is that very few who enter this market become successful. The author interviewed successful traders in America; one among them is Dr. Van K. Tharp, who studied in depth about the psychology of winning. Recent interest in Dr. Tharp's research has been on questioning and analysing prosperous traders and coming up with a model for success. His simple theory is that it is possible to improve the trading performance of less successful traders by coaching them with traits that the successful traders possess. In 1982, he developed a test called "investment psychology inventory" to measure winning and losing traits of traders in the market. Thousands of investors and speculators including the author of the book "the market wizards" had taken the test. His test encompassed eleven areas of measure grouped into three categories that include: The psychological factor, the management and discipline factor and the decision-making factor. The psychological factor consists of five areas that include well-rounded personal life, optimistic attitude, the drive to make money, absence of conflict and accountability for outcomes. His study results reveal that trading success is not highly correlated with the traders drive to make money. The management factor includes management of risk, endurance and instinct. The decision-making factor includes: thorough understanding of technical aspects of the market, ability to think independently and make informed decisions. Based on the results of the test, it was found that the understanding of technical aspects of the market has only very little relationship to trading success. It is also found that traders with poor risk management skills and emotional intelligence tend to be unsuccessful in the market.

Jagoinvestor (2014) pointed out that knowledge and trading strategy only influences a person to be successful in trading by 10-15%. Other factors such as emotional intelligence and money management skills play a crucial role in trading success of a person. Marshall F. (2014), Richard Wyckoff's recipe for competence that would eventually enable a trader to be successful includes information, trading plan, experience and analysis. A trader who misses any of these competences will be ineffective. He also stated that trading is an independent endeavour. It is good to be a member of a trading community but the trading decisions should be established on one's own thinking which in turn is based on facts. He also mentioned that trading is much easier when the main motive is not to make money. Money making should not be the immediate goal but the outcome of good trading. A trader should not be concerned about profit making he should rather focus on doing the right thing.

Braz (2018) studied the characteristics of self-perceived successful traders. The study reported that the characteristics such as risk acceptance, emotional intelligence and being pro-active are positively associated with the successful performance of a trader.

Thus, from the above literatures Buffett, W., Graham, B. (1985), Thomas Oberlechner (2004), Hamzei, F. (2010), Schwager, J. D. (2012), Marshall F. (2014), Jagoinvestor (2014) and Braz (2018), it can be inferred that factors such as risk management skills, emotional intelligence, well-rounded personal life, trading behaviour and knowledge (research and continuous learning), influence trading success. Factors such as social skills and computer skills do not have much of an influence of trading success.

2.2.1 STUDIES ON DEMOGRAPHIC FACTOR

Heath, C., & Tversky, A. (1991) argue that male investors and those with larger portfolios and better educational qualification tend to identify themselves as more skilled than female investors and those with smaller portfolios and less education. Barber, B. M., & Odean, T. (2001) surveyed 35,000 households from a big discount brokerage and investigated the equity investments of men and women. They report that men trade 45 percent more than women and trading reduces men's net revenues by 2.65 percent points a year as opposite to 1.72 percent for women traders.

Wang, A. (2009) studied the diversity among male and female investors' risk management skills and their financial understanding. They document that gender plays a crucial role in differentiating the investors' levels of objective and subjective knowledge, and their risk-taking ability. It is found that male investors have higher subjective and objective knowledge than female investors and therefore they tend to take more risk.

Korniotis, G. M., & Kumar, A. (2011) analysed the elder individual investor's investment decisions. They report that investors who are older with a good amount of investment experience generally tend to follow the thumb rule and are knowledgeable. But they are less dynamic in putting their investment acumen to use and also exhibit poor investment skill, particularly if they belong to the lower section of the society, who are less educated and have less income. On the whole, the positive effects of experience are dominated by the ill effects of aging. The final results point out that the portfolio decisions of older investors reveal superior investment knowledge, but poor investment skill. This could be the ill effects of cognitive aging.

Tripathi G. (2014) reported that the demographic factors of derivatives traders such as their age; gender and educational qualification except for their annual income do not influence their investment in derivative products. They also report that there are more male traders in the derivatives market than the female traders. 76% of the derivative traders wish to trade in options as it offers good financial leverage.

Gautam, I., & Kavidayal, P. C. (2016) found that the risk perceptions of derivative traders of different age groups are not the same. The young traders tend to have higher risk-taking ability than the older traders who sense that the derivatives are riskier instruments to trade.

Kumari, J. (2017) described that the demographic factors such as age group, income level, family size and occupation of the investors have a significant effect on their risk appetite whereas educational qualification and gender do not have significant impact.

The study also highlights that the non-investors stay away from the market because of the fear of market volatility and unassured returns, inadequate knowledge, devious word of mouth and fear of getting cheated.

Sarkar, A. K., & Sahu, T. N. (2017) conveyed that the typical investor in the Indian stock market is educated and aged between 28 – 37 years. Generally, it is the business class who invest much in the stock market. The study also revealed that the demographic factors have a huge influence on the investment behaviour of individual investors in the Indian stock market.

From the above studies, Heath and Tversky (1991), Sarkar, A. K., & Sahu, T. N. (2017), Kumari, J. (2017), Gautam, I., & Kavidayal, P. C. (2016), Tripathi G. (2014), Korniotis, G. M., & Kumar, A. (2011), Wang, A. (2009) and Barber, B. M., & Odean, T. (2001) it can be inferred that the demographics such as age, gender, educational qualification, occupation, annual income have an influence on the trading behaviour of the investors. There are not many studies that have looked into the influence of demographics on trading success.

2.2.2 STUDIES ON PERSONAL HABITS AND LIFESTYLE FACTOR

Schwager, J. D. (2012) asked the popular trader, Toni Saliba about how trading affects his personal life? Saliba replied that he was able to manage trades well from a business point of view, but he miserably failed from the social standpoint. He mentioned that trading doesn't allow him to devote quality time for his loved ones. As he used to carry a lot of work on his dates, his relationship with his former girlfriends suffered badly. And when asked about how he defined success? He stated that "money" is definitely not the answer. Success to him is more do with quality of life. Many might think that he is a successful trader, but he doesn't think so. Ultimately, he longs for family fulfilment that he neglected while busy trading.

Ward M. (2017) summarised the work of Tom corley, an accountant and financial planner by profession who spent five years learning the habits of highly successful people by analysing 233 self-made, rich individuals and compared the same with the habits of 128 poor individuals. Finally, he came up with nine habits of wealthy people. The habits include: quality sleep, rising early, time for concentrated thinking, exercising regularly, spending quality time with motivating people, voracious reading, pursuing goals, having many income sources and effective time management.

Nordstrom (n.d.) explains that success in trading is a part of a balanced life. Success is so much more than being a profitable trader. One cannot neglect: Health, Wealth, Family, Love, Lifestyle and Spirituality. The best traders strike a good balance between these. Outlining one's goals in each of the above areas will pave the way for his/her life as a trader.

From the literature Nordstrom (n.d.), Schwager, J. D. (2012) and Marguerite ward (2017), it is inferred that personal habits and lifestyle plays a significant role in determining success.

2.2.3 STUDIES ON TRADING KNOWLEDGE AND ANALYTICAL FACTOR

Buffett, W., Graham, B. (1985) Benjamin Graham, in his book "Intelligent Investor" says that, to invest or trade wisely in financial instruments like equity, one should be equipped with ample knowledge about the historical performance of share prices in the fluctuating market environment. There is no better statement that is applicable to the stock market than the advice by the eminent Santayana: "Those who do not know the past are condemned to repeat it".

Sperandeo, V. (1998) cautioned the traders in the market to never blindly rely on tips and expert advice. Traders should do their own research and should prove, by historical instances and unbiased factual data, all beliefs and views that one chooses to trust and speculate on. Discerning the fact is important because examining errors is vital to development in all challenges of life. Sperandeo, V. (1998) also says that just like how a person who would want to become a doctor has to undergo arduous training in subjects like biology, chemistry and maths before joining the medical school, so would a proficient trader or speculator should study the basic principles of analysing the market (Fundamental and Technical analysis) before moving on to a higher order knowledge. Many traders commit a serious error by either using only fundamental or only technical analysis. The fundamental analysts use economic data such as GDP, Inflation, News and Events, Intrinsic value of the company, etc. to predict the future prices while the technical analysts employ the historical market data such as price, volume, open interest, volatility, etc… to predict the future movement of the stock price. It is wise to combine both the analysis so that one can predict what is going to happen in the future and also its timeline thus enabling the odds to work in his/her favour. It is impossible to forecast the market behaviour with 100 percent accuracy. The best the trader can do is to identify the most likely forthcoming scenario and trade only when the probabilities support success. Doing so, will be the best promising way to stay ahead of the rest.

Toni turner (2007) expresses that it is possible to get away with slight confidence and a lot of charm in some jobs but in day trading it is difficult to fake. It is not possible to wander in the bumpy ground of highs and lows lacking knowledge. The market swallows oblivious players for breakfast.

Menkhoff, L. (2010) reported that traders who use technical analysis are equally well experienced, educated and successful as other fund managers. Most of the fund managers rely on technical analysis and it is used as a short-term predicting instrument.

Heinke, S. (2017) examined in detail the analytical (quantitative aspect of decision making in a problem situation) and mental (ability to understand others beliefs and intentions, in predicting their actions) characteristics of traders and its influence on their trading success. The results of the study reveal that those traders with high analytical and mental characteristics tend to make highest trading gains. Being good in either of the one skill does not translate into higher trading gains in fact it is highly detrimental to profit making. Rubano, J. (2017) states that there is a gap between the knowledge and skills present in graduates of top-flight finance programs and the demands of a modern trading desk.

From the literature Heinke, S. (2017), Menkhoff, L. (2010), Toni turner (2007), Sperandeo, V. (1998), Buffett, W., Graham, B. (1985) it can inferred that the traders in the market should do their own research and should not blindly rely on tips from experts, friends and media. Thorough knowledge on fundamental analysis, technical analysis backed with analytical thinking is crucial to be a successful trader.

2.2.4 STUDIES ON TRADING BEHAVIOUR

Linnainmaa, J. (2005) studied the individual day traders in Finnish market and reported that the traders are very reluctant to close their day trades at a loss. They highlighted the bad behaviour of the day traders who often tend to sell other stocks in their portfolio to finance their unplanned intraday purchases. On a monthly basis, only 30 percent of traders make positive returns. Locke, P. R., & Mann, S. C. (2005) recent evidence indicated irrational behaviour among retail investors. The full-time traders in their sample hold onto losses significantly longer than gains. The successful floor futures traders exhibit trading behaviour that is characterized as rational and disciplined. Furthermore, measures of relative trading discipline have forecasting power for ensuing trading success.

Garvey, R., et. al. (2007) provided solid proof that professional stock traders who suffer intraday losses in the morning session tend to take more risk in the afternoon session in the expectation of mending their losses. They also highlight the fact that losses in the morning sessions have much more significant impact than morning gains. Akin, A., & Basti, E. (2008) examined the trading behaviour of foreign investors and their return performance in Istanbul Stock Exchange. They found evidence that the investment decisions of foreign investors are affected by their past returns. Their evidence suggests foreign investors often tend to buy stocks with good historical performance and sell those with bad historical performance. They did not find any proof of high returns by foreign investors. Their analysis suggests that the foreign investors in Istanbul stock exchange are uninformed momentum traders.

Goodfellow, C., et. al. (2009) reported that the individual investors of polish stock market exhibit herding behaviour during the bearish market, while there is less indication of the same in a bullish market. Institutional investors do not display such behaviour regardless of the market direction. Hamzei, F. (2010) stated that the retail traders mostly traded with their heart rather than with their intellect by entering into long call options in the derivatives market when the overall market is at its peak and a lot of long put options when the market is bearish.

Barber, B.M., et. al. (2010) reported that in a typical year, 74% of the participants in the market are new or infrequent day traders but they contribute only 34% of the total day trading volume. Traders with a past history of profits, who are just 1.4% of the total trading population, contribute 12% of the overall trading volume. Day traders with past history of losses, who represent 24% of the total trading population, contribute 54% of the overall trading volume. Thus, it is evident that the rational model of learning is not relevant for day trading. Their results discuss that day traders may be overoptimistic of their trading skills thus leading to losses that they haven't foreseen. They also argue that entertainment, gambling and urge to impress others could also be the other major motives for day traders to be in the market.

Aduda, J., et. al. (2012) studied the effect of the individual investor's behaviour on their financial performance. The study analysed factors such as overconfidence, cognitive dissonance, regret theory and prospect theory. The results highlighted that irrational investors who impulsively followed the crowd (herding behaviour) suffered adverse results. Despite having sufficient experience in the market, most of the participants in the market had not developed the necessary knowledge to make informed investment decisions.

HON Tai Yuen, K. (2012) documented five factors that measure the behaviour of small investors in derivatives markets in Hong Kong. The factors include personal background, risk tolerance, return performance, reasoning ability and reference group. The factor, personal background includes demographics such as age, income and investment experience; Reference group includes experts' recommendations from Television/Newspapers/Magazines, Friends/Relatives, Internet, consultants and companies' annual reports; the factor, return performance includes the average income generated from derivative trading; the factor of risk tolerance encompasses the individual level of acceptance of investment risk and the factor reasoning ability covers investors' rational when they wind up their position in derivative products. The results of the study reveal that among the five factors studied, three of them, return performance; reference group and personal background (in the ascending order of prominence) regularly influenced the trading behaviour of the retail investors in the derivatives market.

Schwager, J. D. (2012) interviewed the remarkable trader Tony Saliba who said that most of the traders in the market fail because of lack of discipline and the hard work ethic. He warns the traders to never take the market for granted. He also urged the traders to live by certain trading rules like: diligently doing one's homework that includes, recapitulating the day and analysing things that went right and wrong. Another part of the homework is to be prepared for the next day which includes sketching the trading plan and being equipped for the worst. The biggest misconception among the retail traders is that they will be able to make money only in the bullish market but the truth is that a trader can make money in any kind of market situation (Bearish, Bullish, less volatile or highly volatile, etc.) using right strategies.

The author also interviewed another renowned trader, Marty Schwartz. Schwartz suggested the ordinary traders to accept losses but never let losses get out of hand. He insisted the traders to not increase the position size, until he/she has doubled up the initial investment. Most new traders in the market make a grave mistake of quickly increasing their bets as soon as they start making small profits. That is a hasty way to get out of the market. Schwartz also mentioned that he always suffered huge losses immediately after his biggest gain. He suspects that this should hold good for the majority of traders in the market. A trader who manages to make few continuous winning trades becomes complacent and this in turn leads to messy trades.

Schwager, J. D. (2012) interviewed the eminent trader, William O' Neil. Neil highlighted that the serious mistakes that traders make is to let the losses run. The retail traders generally don't realise the idea of curbing losses quickly. This is as grave as driving a car without break. Similarly, while booking profits, the trader should aim to make substantial profits on the trade and to never get distressed if the price keeps rising even after exiting the position. He has to understand that it is impossible of a trader to sell at the all-time high price.

Schwager, J. D. (2012) in conversation with the notable trader, Michael Steinhardt, quizzed him about the grave mistakes made by the traders in general. Steinhardt answered that the traders speculate on options too much because they think that it is an easy way to make quick money. When they buy options, they mistakenly focus on short-term options with cheap premium (generally OTM options) that are highly volatile and risky. They don't realise the fact that the theta of the option (time decay) works against them. Many derivative traders also sell "naked options", which simply means taking huge risk for a possibly lesser return. According to him, good trading is a strange balance between the belief to follow one's strategy and at the same time having the flexibility to discern when one has made an error. One needs to believe in something but at the same time, he/she is going to be wrong a considerable number of times. The sense of balance between confidence and humility is best understood through varied experience and errors. A wise trader should always respect the person on the other side of the trade and question himself about the reason for the other person to enter the trade and also ponder about what the other person knew which he doesn't know. Finally, a good trader has to be rationally honest with his own self and with others. He also stresses that there is no out-and-out prescription for trading success. The market is always changing and those who can adapt to these changes quickly will emerge as a successful trader. In Steinhardt's viewpoint a trader who tries to find a fixed approach is destined to fail anytime.

Barber, B. M., & Odean, T. (2013). Theoretically, it is assumed that investors generally hold a well-diversified portfolio and not trade very often so that they can save on taxes and other transaction costs. Contrary to this, in practice, investors behave in a different way. They trade very frequently and have exhibited bad stock picking behaviour, suffering excessive transaction costs and losses. They inclined to sell their winning trades quickly and hold on to their losing trades, generating excessive tax liabilities. Many participants are excessively persuaded by media and their previous experience. Those who ignore the prescriptive advice to buy and hold low-cost, well-diversified portfolios, usually do so to their disadvantage. Kuo, W. Y., & Lin, T. C. (2013) provides proof that retail traders with a good amount of trading experience display more destructive day trading behaviour.

Ramadorai T (2014) analysed the data of investment behaviour of 12 million individual investors in the Indian equity market and reported that a typical novice individual investor in India appears naive and makes serious mistakes in the market but experienced investors exhibit better investment behaviour and some manage to beat the market in the long-run.

Lefevre, E. (2018) Traders generally hold on to their losing trades for a longer period of time because they expect that the market will turn in their support anytime soon and can quickly recover their losses. They book profits too quickly, since they fear that the profits will diminish if they hold on too long. As an alternative, traders should dread bigger loss and hope for bigger gains. A Wall Street fool is a trader who thinks that he must trade all the time. No one can at all times have satisfactory explanations for trading stocks daily or adequate understanding to play wisely. The craving for persistent action regardless of underlying market conditions is the reason for countless losses in the Wall Street even among experts, who think that they must take home some money daily as if they were employed for regular remunerations. Raut, R. K. et. al. (2020) documented that investors in the Indian Equity market are highly swayed by herding behaviour, information cascades, anchoring, representativeness and overconfidence. Alongside, the study has also provided strong indication of investors' irrationality as well as inefficiency of the financial market.

From the above literature Raut, R. K. et. al. (2020), Lefevre, E. (2018), Kuo, W. Y., & Lin, T. C. (2013), Barber, B. M., & Odean, T. (2013), Schwager, J. D. (2012), Aduda, J., et. al. (2012), Akin, A., & Basti, E. (2008), Garvey, R., et. al. (2007), Locke, P. R., & Mann, S. C. (2005), Linnainmaa, J. (2005) and), Barber, B.M., et. al. (2001) it is evident that retail traders generally exhibit undesirable trading behaviour such as herding, disposition effect and hasty actions whereas to be a winning trader one has to be forearmed with a proper trading plan by diligently doing one's home work.

2.2.5 STUDIES ON RISK MANAGEMENT FACTOR

Buffett, W., Graham, B. (1985) emphasised that most traders in the stock market want to double their money instantaneously, at the same time they cannot afford to see half of their capital crumble just as quickly. J.P. Morgan once had a friend who was not able to sleep at night as he kept worrying about his stock holdings. The friend asked him as to what he should do about his stocks. Morgan simply instructed him to sell down to the sleeping point. He wasn't joking. High rewards can be achieved only at the cost of substantial risk-taking.

Locke, P. R., & Mann, S. C. (2003) examined the influence of previous trading results on their risk-taking ability in the future. They find that traders with good experience are doubtful to take massive risk instantaneously after making unusual profits. The results of their study highlight that success may inspire overconfidence but experience limits its impact.

Guppy, D. (2011) says that how well an individual trade is determined by his risk management skills. Those who are only fond of making money over managing risk are destined to failure. A solution to risk management is to be mindful of how much a trader is ready to loose. In financial terms "risk is the product of relationship between entry and exit price and the trading capital". The author recommended to not risk more than 2% of the trading capital in a single position or trade.

Schwager, J. D. (2012) interviewed yet another remarkable trader Mark Weinstein for his book "Market Wizards". Weinstein's winning ratio in trading is almost 99 percent. He explained that he is able to do so, because he really fears the market and the incredible traders are the ones who are most scared of the market. He mentioned that because he is scared of the market all the time, he is forced to enhance his market timing with great accuracy. He also doesn't lose much of his trades because he waits for the exact correct moment. "Most traders do not wait for the situation to tip itself off". They tend to walk into the forest while it is still dark but he always tolerantly waits for the light to emerge. Although cheetah is the fastest animal on the land and it can easily catch any animal on the plains, it will always wait until it is absolutely sure it can catch its prey. It may hide behind a bush for even a week, waiting for the right moment. It will wait for a baby antelope and not just a baby antelope but if possible, the one that is unwell. It will only attack when it is very sure that it can't lose the target. That, to him, is the epitome of expert trading. He in short behaves like a cheetah in his position trades and like a sparrow while day trading.

Schwager, J. D. (2012) Bruce Kovner in an interview for the book "Market Wizards" opined that there can be only a fairly minor group of superior traders, as trading is a zero-sum game and it is highly impossible for a person who doesn't work really hard to be a good trader. His main advice to the new traders in the market is to pay a lot of attention to risk management and to under trade. New traders in the market generally tend to over trade; they take 5 to 10 percent risk in a trade where they are supposed to take 1 to 2 percent.

Marshall F. (2014), Successful trader, Wyckoff retired from trading after making his fortune. He considers that markets change and there is no assurance of prolonged success. It is unwise to step in the same river twice. After making a lot of money in trading, Wyckoff was keen about protecting what he had made and did not risk all his money further. He focused on educating people about the market nuances and enjoyed the fruits of his labour. Similarly popular Indian investors like Rakesh Jhunjhunwala, Vijay Kedia and others were smart enough to transcend from trading to investing in the initial days of their trading career.

Thus, from the above literature Marshall F. (2014), Schwager, J. D. (2012), Guppy, D. (2011) and Locke, P. R., & Mann, S. C. (2003) it is clear that protecting one's capital and being very clear about the entry and exit (stop loss trigger) point of the trade and position sizing are crucial risk management skills required to be a winning trader in the market.

2.2.6 STUDIES ON EMOTIONAL OR PSYCHOLOGICAL FACTOR

Douglas, M. (1990) in his book “The Disciplined Trader” mentioned that he honestly believes that success in trading is 80% psychology and 20% one’s methodology, be it fundamental or technical. For example, it is possible to make money in the stock market with average knowledge of the fundamental and technical information but good psychological control. Conversely one can have a strong strategy that has proven great in the former trades, yet if the psychological control is missing, he will be a loser. Sperandeo, V. (1998) in his book “Principles of professional Speculation” remarks that the market is not always objective, at times the market is emotional, subjective and psychological. Odean, T. (1998) verified and established proof that investors tend to sell winning transactions too early and hold on for a very long time with losing transactions. Hilton, D. J. (2001) studied the psychology of financial decision making and came up with the seven deadly sins applicable to trading and investment analysis. The sins include: Confirmation bias, Optimism bias and illusion of control, Overconfidence in predictions, Mistaken beliefs, Risk aversion, Mental rigidity and Mental accounting bias. Lo and Repin (2002) present psychological evidence that even expert investors in the stock market display considerable emotional reaction, which is witnessed by greater level of skin conductance and cardiovascular variables, during certain fleeting market events such as increased volatility or intraday break in trends. Lo, A. W., et. al. (2005) reported that the traders who exhibited intense emotional reactions when there were financial losses and gains displayed poor trading performance, thus indicating that the factors trading success and emotional reaction are negatively correlated. They conclude that extreme emotional responses are destructive to good trading performance. External factors such as family history, market events, etc. also influence traders' specific emotions. They also report that successful traders in the market do not share any particular personality trait.

Turner, T. (2007) The first rule of thumb for a day trader is to never trade with "scared money". That is losing that money would cause a lot of hindrance to the current lifestyle of the trader or his family. This insecure feeling could force the trader to make bad trading decisions leading to quick loss of money. This simply means that the trader should trade only with the money that he can afford to lose.

Wyckoff, R. (2010) in the book titled my secrets of day trading mentioned that it is vital for a day trader to have appropriate mental qualifications which not just require knowledge but also the capacity to train the mind to keep emotions such as fear, nervousness, ecstasy and rashness under control. Hoffmann, A. O., & Post, T. (2012) fear and optimism are the important factors that determine individual investors' trading and risk-taking behaviour.

Bruce Kovner in an interview for the book "Market Wizards" by Schwager, J. D. (2012) states that "personalising the market" is the biggest mistake made by new traders in the market. But the market is absolutely impersonal; it is not concerned whether one had made or lost money. Each time a trader says "I wish", or "I hope", he is engaging in a destructive thinking behaviour as it takes his attention away from the problem-solving process. He also mentioned that the most important quality of a successful trader is discipline and willingness to make, admit mistakes and learn from it.

El-Chaarani, H. (2016) explored the relationship between emotional intelligence (EI) and portfolio performance. Investor's emotional signals were captured during market fluctuations. The results of the study revealed that the investors with low EI scores displayed high emotional intensity such as getting dejected when the market is unpredictable.

The study revealed that an investor's portfolio performance is highly influenced by his/her ability to Perceive and tackle emotions. Higher emotional intelligence is strongly correlated with better portfolio performance.

Barber (2017) studied whether day traders in Taiwan market rationally learn about their ability. They find proof that decision to continue or increase day trading is influenced by the previous day's trading returns. However, the vast majority of day traders are unsuccessful, and many continue regardless of their extensive experience of losses. He also says that one of the most important principles to be a successful trader is to have a contrarian view. This does not mean being stubborn but simply means to have intellectual independence and not to be swept along with the crowd.

Kourtidis, D., et. al., (2017) reported that personality traits of an investor have an influence on his/her trading behaviour and stock performance. Phan, T. C., et. al., (2018) studied the psychological patterns and trading behaviour of Vietnamese retail investors. The study reported that the traders who are impatient and who constantly check their investment performance tend to trade excessively.

From the above literature Phan, T. C., et. al., (2018), Kourtidis, D., et. al., (2017), El-Chaarani, H. (2016), Schwager, J. D. (2012), Wyckoff, R. (2010), Toni turner (2007) and Lo, A. W., et. al. (2005), it is obvious that a psychological factor such as emotional intelligence or control plays a very important role in being a successful trader in the market.

2.2.7 STUDIES ON SOCIAL FACTOR

Hirshleifer, D., & Hong Teoh, S. (2003) Human Beings are social animals who are generally influenced by society in almost all walks of life, investment and financial transactions are no exception to this. E.g.: when it is reported in the news that Warren Buffett had invested in a particular company's shares, all of a sudden, there is a huge volatility witnessed in the price of that security. Generally, traders are time and again attributed for their irrational behaviour and being highly motivated by 'herd instinct". Wise traders usually stay away from stocks that run on the T.V. news. Institutional traders get the news even before the same is broadcasted to the public.

Toni Turner (2007) expresses that the new traders in the market often make the biggest blunder by plunging straight into extremely volatile stocks and high risky derivative products like futures and options just because their friends or colleagues do so. It is a sheer waste of time to compare oneself with others in this domain. Shanmugham, R., & Ramya, K. (2012) studied reported that social interaction and media influence the trading behaviour of the individual investors in the Indian market. Pan et al., (2012) contrary to the general belief it was found that social trades beat individual trades and social stimulus plays an important role in decision making particularly during times of uncertainty in the market. They also report proof that changing aspects of social influence leads to market overreaction. Social Trading is very popular in developed markets and is slowly emerging in diverse forms in India. Wohlgemuth et al., (2016) Social trading is the process of making trades through definite, investor-focused online groups. Ammann & Schaub (2016) documented that traders with good historic performance are most likely to talk about their executed strategies in social trading platforms. The study also exhibited strong proof that the investment/trading decisions of the members in social trading platforms are influenced by key trader's communication about the market. It is mostly the retail individual traders who rely on social interactions while making investment decisions. Oehler et al, (2016) Every member of the group has access to the investment or trading choices that the followers make in the platform. In addition, they can also exchange trading strategies, ideas; information and also copy trade the strategies of successful traders in the market. Wohlgemuth et al., (2016) Copy Trading makes instantaneous absolute replicas of other investor's trades through programmed brokerage implementation. Berger, E. S., et. al., (2018) examined the performance of imitation related features in the social trading platform. The result of their study highlighted that the experience coupled with low risk of the imitation trader's elucidate similar performance results. Dorfleitner, G., et. al, (2018) analysed the returns of traders who use the copy trading facility offered by social trading platforms. The results revealed that those who blindly copy trades and those who exhibit high active trading behaviour seem to have negative returns. Lee, W., & Ma, Q. (2018) Sharing investment strategies is a key feature in social trading platforms. Users can learn and imitate expert's strategies. One of the biggest challenges for the users is to decide whom to follow. The author proposed a system that would help copy traders in the social trading platform to find expert traders. The system would shortlist the traders in terms performance, risk and consistency. A trader who consistently earns reasonable returns with minimum risk is considered as an expert trader whom others can follow.

Tauni, M. Z., Fang, H. X., & Iqbal, A. (2016) analysed the impact of source of information on the investment behaviour of the investor. Their results revealed that financial guidance from experts in the field have substantial positive influence on trading behaviour and word of mouth have an undesirable influence on trading intensity. They also report that extraverted participants tend to trade more by trusting the information assimilated through word of mouth and depend less on expert advice. Phan, T. C., et. al., (2018) Investors who trust on recommendation from friends and family members tend to under-diversify their portfolio.

From the above literature it can be inferred that social factors have a huge influence on the trading behaviour of the retail participants but very few studies have analysed its impact on the success of the trader.

2.2.8 STUDIES ON TECHNOLOGY FACTOR

Stoll, H. R. (2006) Computer algorithms make one –third of all trading decisions in the US market. Machines are capable of placing several trades, monitor thousands of stocks and execute orders at a rapid speed. Toni Turner (2007) High speed internet connection with a robust trading platform is advantageous for placing and processing orders quickly. Bowley (2010) highlighted that the tech-savvy and geeky traders use powerful computer algorithms (artificial intelligence) to read news reports, quarterly results, blogs and even twitter messages at a very rapid speed and then let the algorithm decide for itself and trade automatically. Frino et al. (2012) confirmed that algorithms respond faster and more aptly to news announcements than non– algorithmic traders. The outcomes suggested that as algo traders are the fastest traders, their trading quickness up the information incorporation process in the market. Schwager, J. D. (2012) unlike others the most popular trader, Ed Seykota’s desk is not flanked by an array of quote screens, or, for that matter, even a single screen. His trading is largely confined to the few minutes it takes to run his computer program that generates signals for the next day.

According to NIFM report (2018), algo trades constituted 48.29% of the trades in the equity derivatives segment and 44.8% in the cash segment of the total trading turnover of the Indian stock exchange. This means that there is a 50% chance that the orders placed in the stock exchange are responded to by machines. Deepika and Sudhamathi (2019) reported that Algorithmic trading in India is emerging rapidly and has enhanced the quality of the market in terms of price efficiency and liquidity. However, algo trading and High Frequency Trading (HFT) only aids trading efficiency and cannot be a substitute for fundamental research. The achievement rate of algo traders are determined by the logic and parameters set in the algorithm.

From the above literatures Deepika and Sudhamathi (2019), Schwager, J. D. (2012), Frino et al. (2012), Bowley (2010), Toni Turner (2007) and Stoll, H. R. (2006) it can be understood that technology plays a vital role in trading these days but whether it is crucial in determining one's trading success is still not clear.

After extensively reviewing the literature the following variables that influence trading success have been extracted and tabulated for convenience.

Table 2.1 Consolidation of Variables Influencing Trading Success from ROL

Authors	Variables Influencing Trading Success
Dr. Van K. Tharp	Personal life, positive attitude, responsibility for results, risk control, patience and intuition, aptitude for making sound decision and the ability to think independently
Sperandeo, V. (1998)	Discipline, research, attention to detail and continuous study
Thomas Oberlechner (2004)	Quick reaction time followed by discipline, experience, concentration and stress resistance
Heinke, S. (2017)	Analytical and mental characteristics
Song, S. I. et, al, (2019)	Trading capital and experience
Braz (2018)	Risk tolerance, emotional intelligence and being proactive
Steinhardt	Experience

Authors	Variables Influencing Trading Success
Nordstrom	Personal habits
Marguerite Ward (2017)	Habits such as waking up early, voracious reading, time for focused thinking, regular exercise, spending time with inspiring people, pursue their goals, Good sleep, have multiple income and avoid wasting time
Tony Saliba	Discipline and the hard work ethic
Victor Sperandeo	Intellectual independence and not to be swept along with the crowd.
Hirshleifer, D, et.al. (2003)	Staying away from the crowd
Toni turner (2007)	Knowledge
Guppy, D. (2011)	Risk management
Wyckoff, R. (2010)	knowledge, control emotions such as fear, anxiety, elation and recklessness
El-Chaarani, H. (2016)	Emotional intelligence
Berger, E. S., et. al., (2018)	Social trading
Ed Seykota	Tech savviness
Hamzei, F. (2010)	Goal setting, emotional control, adaptive of the market, never force trading, accountable, Planning in advance, protecting capital, evaluating probabilities and being a student of the market

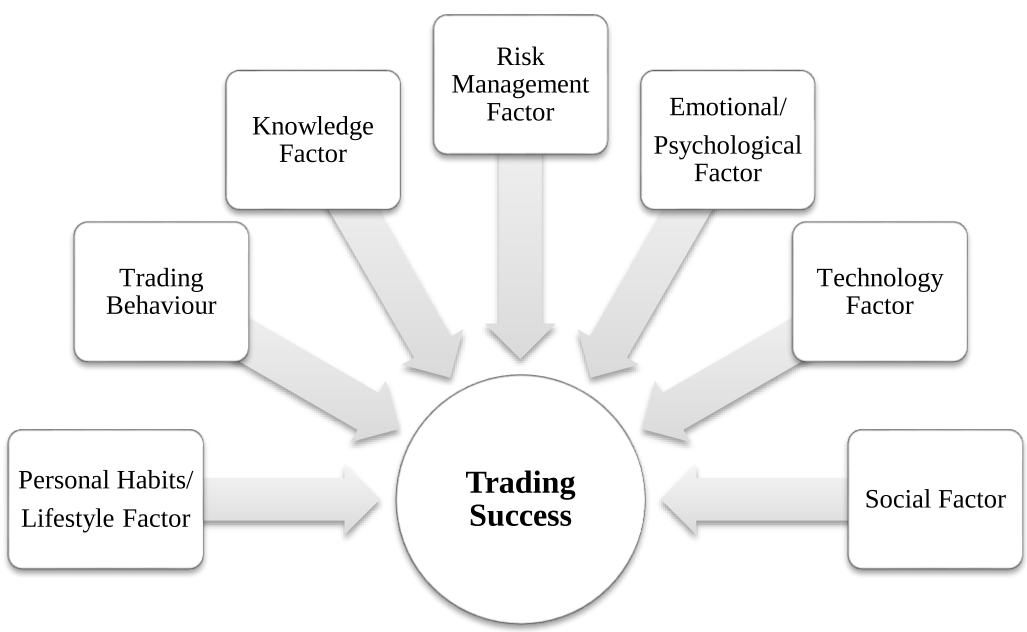
2.3 RESEARCH GAP

There are a good number of studies on trading success conducted in the U.S., Taiwan and Korean markets. Even the classic books on trading behaviour, psychology and trading success that are available in the market are written by western authors but to the best of the researcher's knowledge, there are hardly any research studies in the Indian scenario. The Indian equity derivatives market is growing at a rapid pace and the largest in the world in terms of volume and the Individual investors account for major participation in the market. Unlike the western world, less than 10% of the Indian population have Demat Account but their sudden interest in highly speculative instruments like derivatives is quite alarming. Therefore, it is the need of the hour to study the profile of these traders and analyse if they are really successful in trading equity derivatives. Many informal sources claim that 95% of traders in the market fail, so what sets apart the rest 5% is an elusive quest. Therefore, it is also important to understand the factors that influence trading success in the equity derivatives market.

2.4 CONCEPTUAL FRAMEWORK DEVELOPED FROM THE LITERATURE

Based on wide review of literature and consultation with experts in the field of the study, the following seven independent factors have been identified conceptually. Those factors are: Personal habits or Lifestyle factor, Trading behaviour, Knowledge factor, Risk management factor, Psychological or emotional factor, Technology factor and social factor that influence the dependent factor: the trading success of the equity derivatives trader.

Fig. 2.4.1 - Conceptual Model Identified from Intensive ROL



The above figure represents the seven factors that are considered as the determinants of trading success. This inference derived conceptually had been validated hypothetically.