Influence of Prospect Variables on the Trading Decisions of Equity Derivative Traders in Kerala

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Abstract
The application of psychology to financial behaviour is known as behavioural finance. Investors' decision-making process is influenced by behavioural aspects. The primary focus of this study is to examine the influence of prospect variables on the trading decisions of equity derivative traders in Kerala. The influence of prospect variables has been examined using three variables such regret aversion, loss aversion, and mental accounting. This study found that all three prospect variables strongly influence the trading decision of equity derivative traders in Kerala, and there is no significant difference in the influence of prospect variables among traders of different gender, trading experience and trading capital. Whereas there is significant difference in the influence of prospect variable among traders of different age and education groups.

***Keywords:** Prospect Theory, Equity Derivative, Behavioural Finance, Behavioural Biases, Trading Decisions*

I. Introduction

Prospect Theory is a behavioural economics concept that won the Nobel Prize, asserts that people make decisions based more on prospective benefits or losses than on actual results. This psychological foundation has a significant impact on investors' trading actions, especially in the intricate and volatile world of equity derivatives. Equity derivatives, financial instruments whose value is derived from an underlying equity, offer a myriad of investment opportunities but also present significant risks. The decisions made by traders in this arena are not solely driven by rational economic models but are often influenced by cognitive biases and emotional factors. This study delves into the prospect variables that shape the trading decisions of equity derivative investors. By understanding how these psychological factors impact investor behaviour, the study aims to shed light on the irrationalities that often characterize financial markets.

II. Literature Review

The impact of psychological biases is one of the most important parts of behavioural finance research. The research in behavioural finance has grown recently. The most influential study by *Tversky & Kahneman, (1974)* examined the cognitive biases that stem from the reliance on judgmental heuristics. They describe three heuristics used in making decisions under uncertainty: i) *representativeness*, (ii) the availability of instances; and (iii) anchor adjustment. *Daniel et al., (2002)* examined a large body of information on how psychological biases influence investor behaviour and prices. The study points out that systematic mispricing most likely results in significant resource misallocation and restricted attention and overconfidence leading to investor trust in educated market players' strategic incentives. *Frijns et al., (2010)* looked into behavioural heterogeneity in the options market. This study presented an alternate pricing approach. *Luong & Ha, (2011)* conducted a study to investigate the behavioural aspects affecting individual investors' decisions at the Ho Chi Minh Stock Exchange. The findings reveal that five behavioural factors influence individual investors' investing decisions at the Ho Chi Minh Stock Exchange: herding, market, prospect, overconfidence-fallacy, gamble's and anchoring-ability bias. *Y. Gupta, (2016)* investigated the impact of behavioural biases on investor decision-making. It was discovered that four out of seven behavioural biases, namely regret aversion bias, herding bias, overconfidence bias, and representativeness bias, influenced both groups of investors equally likely. *Antony & Joseph, (2017)* examined the cognitive biases and heuristics of derivative market investors. The study also looked into the impact of behavioural factors on investment decisions. The decision-making process is considered cognitive in nature because investors must make a choice based on the various options available to them. Based on the review of literature, this study selected four factors under the heuristic theory which influence the trading decisions, they are: *Representativeness, Anchoring, Overconfidence and Gamblers fallacy.*

After reviewing the literature it is identified that research on behavioural biases of equity derivative traders is not available. As a result, there is a research gap that the author has observed, which inspires the

current work. This research is being carried out to explain the Influence of prospect variables on the trading decisions of Equity Derivative traders in Kerala.

III. Research Problem

For one to consistently make speculative profits from the derivative market, one must possess a deep understanding of the market and trading tactics. Investors' decision-making process is influenced by behavioural aspects. Traders' decisions and performance might be influenced by both rational and irrational behaviour. It is well known that stock market investors in India have behavioural biases. However, no research has looked at how prospect variables affect Indian stock derivative traders' trading decisions to date. In this background, it is very relevant to study the influence of prospect variables on trading decisions. This study examines the influence of prospect variables on the trading decisions of equity derivative traders in Kerala.

IV. Research Methodology

In order to achieve the valid results, the reliable and adequate sample size is chosen through the questionnaire. Primary data were collected from a sample of 300 equity derivative traders in Kerala by using self-completion questionnaire send through Google forms. The responses collected were automatically stored as Excel (CSV) file in Google forms which is exported to SPSS Version 22 for further coding. The 5-point Likert scale item responses are accordingly coded as values 5 for Strongly Agree, 4 for Agree, 3 for Neutral, 2 for Disagree and 1 for Strongly Disagree. Descriptive statistics including frequencies, mean and standard deviation are used to identify the pattern of responses apart from the basic profile of the respondent. Since the distributions found normal parametric tests (ANOVA, t-test, etc) were used for data analysis.

V. Results and Discussions

Prospect theory and Expected Utility Theory (EUT) are viewed as two distinct decision-making methodologies. While EUT focuses on investors' rational expectations, prospect theory emphasizes subjective decision-making affected by the investors' value system *(Filbeck et al., 2005)*. People tend to under-weigh probable outcomes compared with certain ones and people respond differently to similar situations depending on the context of losses or gains in which they are presented *(Kahneman & Tversky, 1979)*. Prospect theory describes some states of mind-affecting an individual's decision-making processes including Regret aversion, Loss aversion, and Mental accounting *(Waweru et al., 2008)*.

5.1 Regret Aversion

Regret refers to people's emotional reaction to making a mistake *(Plous, 1993)*. Investors consistently engage in behaviour that they regret later *(Hvide, 2002)*. They avoid selling shares that have decreased in value and readily sell shares that have increased in value *(R. Shiller, 1999)*. *Fogel & Berry, (2006)* found that investors reported regrets about holding a losing stock too long than about selling a winning stock too soon. *Statman, (1999)* argued that people tend to feel sorrow and grief after having made an error in judgment. Investors deciding whether to sell a security are typically emotionally affected by whether the security was bought for more or less than the current price. In this study in order to examine the *regret aversion* among equity derivative traders the statement *"I always prefer trading in low-risk strategy even if returns are lower"* is asked to sample respondents with a five-point Likert scale.

5.2 Loss Aversion

Loss aversion recognizes that the mental penalty associated with a loss is greater than the mental reward from a similar-size gain *(R. J. Shiller, 2000)* There is evidence showing that people are more distressed at the prospect of losses than they are pleased by equivalent gains *(Barberis & Thaler, 2003)*. Moreover, a loss coming after a prior gain is proved less painful than usual while a loss arriving after a loss seems to be more painful than usual *(Barberis & Huang, 2001)*. In addition, *Lehenkari & Perttunen, (2004)* find that both positive and negative returns in the past can boost the negative relationship between the selling trend and capital losses of investors, suggesting that investors are loss averse. Risk aversion can be understood as a common behaviour of investors, nevertheless, it may result in bad decisions affecting investors' wealth *(Odean, 1998)*. In order to examine the *loss aversion* among equity derivative traders the statement *"I am always focusing on avoiding loss more than on making gain"* is asked to sample respondents with a five-point Likert scale.

5.3 Mental Accounting

Mental accounting is a term referring to "the process by which people think about and evaluate their financial transactions" *(Barberis & Huang, 2001)*. Mental accounting allows investors to organize their portfolios into separate accounts *(Barberis & Thaler, 2003)*. *Ritter, (2003)* explained mental accounting with an example: 'People sometimes separate decisions that should, in principle, be combined. For instance, many

people have a household budget for food and a household budget for entertainment. At home, where the food budget is present, they will not eat lobster or shrimp because they are much more expensive than a fish casserole. In a restaurant, however, they will order lobster and shrimp even though the cost is much higher than a simple fish dinner. If they instead ate lobster and shrimp at home, and the simple fish in a restaurant, they could save money. However, because they are thinking separately about restaurant meals and food at home, they choose to limit their food at home. To examine the *mental accounting bias* among equity derivative traders the statement *"I generally give different weight to different income. (E.g. I spend my regular income very carefully than my investment or additional income.)"* is asked to sample respondents with a five-point Likert scale.

Prospect theory was evidenced by the presence or absence of the following three behavioural characteristics; *loss aversion, regret aversion, and mental accounting*. Using a five-point Likert scale the respondents were asked to indicate the extent to which these factors influenced their trading decision-making process and analyzed using one sample t-test with a test value of '3', which is the mean of the 5-point response scale. The test results of influence of three behavioural biases under the prospect variables are measured and summarized in Table 1.

Table 1. *Influence of Prospect Variable on the trading decision of equity derivative traders in Kerala*

(n=300)

Statement / Variable	Responses#	Frequency	%	Mean ± SD	t*	*p*-value
I always prefer trading in low-risk strategy even if returns are lower **(Loss Aversion)**	SD	18	6.0	3.71 ± 1.19	10.281	<.01***
	D	25	8.3			
	N	87	29.0			
	A	66	22.0			
	SA	104	34.7			
I am always focusing on avoiding loss more than on making gain **(Regret Aversion)**	SD	12	4.0	3.92 ± 1.14	14.089	<.01***
	D	22	7.3			
	N	67	22.3			
	A	75	25.0			
	SA	124	41.3			
I generally give different weights to different incomes. (I spend my regular income very carefully than my additional income.) **(Mental Accounting)**	SD	21	7.0	3.58 ± 1.15	8.717	<.01***
	D	24	8.0			
	N	90	30.0			
	A	90	30.0			
	SA	75	25.0			

Source: Primary data#*(SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree, SA=Strongly Agree)*
**One-sample t-test, Average=3*   ****Difference is significant at 1% level*

Table 1 presents the influence of prospect variables on trading decisions of equity derivative traders, the variable wise analysis of the influence of prospect variables are explained below:

The above table indicates that the mean score of loss aversion is 3.71, which is significantly above the mean score of the response scale i.e., 3, and the one-sample t-test shows that the mean score is statistically significantly higher than the population average score, t (299) = 10.281, *p* = <.01. Hence, it can be concluded that *loss aversion* bias strongly exists among equity derivative traders in Kerala. The mean score obtained for regret aversion is 3.92, the one-sample t-test shows that the mean score is statistically significantly higher than the population average score. Therefore, the r*egret aversion* bias strongly exists among equity derivative traders in Kerala. With respect to the mental accounting bias the one-sample t-test shows that the mean score is statistically significantly higher than the population average score, and it can be inferred that the *mental accounting* bias strongly exists among equity derivative traders in Kerala.

5.4 Combined Influence of Prospect Variables

The overall influence of prospect variables on the trading decision of equity derivative traders is measured by combining the above three variables. The data is then analysed using one sample t-test with a test value of '2'. The result is summarised below.

Table 2 *Combined influences of Prospect Variables on the trading decision of equity derivative traders*

Variable		Frequency	Percent	Mean ± SD	t*	*p*-value
Influence of Prospect Variable	Low	29	9.7	2.56 ± 0.664	14.509	<.01***
	Medium	75	25			
	High	196	65.3			
	Total	300	100.0			

Source: Primary data   ****Difference is significant at 1% level* **One-sample t-test, Average=2*

Table 2 indicates that the mean score obtained for measuring the influence of prospect variables is 2.56 and the one-sample t-test shows that the mean score is statistically significantly higher than the population average score, t (299) = 14.509, *p* = <.01. Hence, it can be concluded that influence of prospect variable strongly exists among equity derivative traders in Kerala.

VI. Comparison of the Influence of Prospect Variables on Different Demographic Groups of Equity Derivative Traders.

The influence of prospect variables on the trading decisions of equity derivative traders is compared with respect to five demographic variables such as *gender, age, educational qualifications, trading experience and trading capital.* The results are discussed below.

6.1 Gender-wise Analysis of Influence of Prospect Variables on the Trading Decisions of Equity Derivative Traders

The influence of prospect variables on male and female equity derivative traders are compared using an independent sample t-test and the result is p resented in Table 3.

Table 3 *Gender-wise analysis of influence of prospect variables on the trading decision of equity derivative traders*

Test variable	Group	N	Mean ± SD	*t*	*p-value*
Influence of Prospect Variables	Male	264	11.13± 2.79	-1.452	.148
	Female	36	11.83 ± 2.22		

Source: Primary data

From Table 3, it can be observed that the mean score of influence of prospect variable of male and female traders are 11.13 and 11.83 respectively and indicates very little difference between the mean values. Since the *p*-value (.148) is more than 0.05, it can be inferred that there is no significant difference in the influence of prospect variables between male and female equity derivative traders in Kerala.

6.2 Age-wise Analysis of the Influence of Prospect Variables on the Trading Decision of Equity Derivative Traders.

Traders with different age categories may have differences in the influence of prospect variables on their trading decisions. On the basis of age, the sample respondents are classified into four groups such as: *Up to 30 (1), 31-40 (2), 41-50 (3)* and *51& above (4)*. Hence the data has been classified age-wise and descriptive analysis has been done to know the mean score of traders in different age categories as shown in Table 4.

Table 4 *Age wise analysis of influence of prospect variables on the trading decision of equity derivative traders*

Test Variable	Age Group (in years)	N	Mean ± SD
Influence of Prospect Variables	Up to 30	85	11.33 ± 2.64
	31 – 40	135	11.49 ± 2.75
	41 – 50	55	11.29 ± 2.54
	51 & above	25	9.16 ± 2.60
	Total	300	11.21 ± 2.74

Source: Primary data

According to the table 4, there are differences in the mean score of the influence of prospect variables among traders of different age groups. The age group 3*1-40 (group 2)* have the highest mean score (11.49) of influence of prospect variables and the age group *51& above (group 4)* have the lowest mean score (9.16) of influence of prospect variables. The ANOVA is applied to test the significance of differences among the mean of different age groups and the result is summarised in Table 5 below.

Table 5 *Result of One-way ANOVA: Age-wise analysis of influence of prospect variables*

	Sum of Squares	df	Mean Square	F	*p*-value
Between Groups	117.131	3	39.044	5.448	.001
Within Groups	2121.215	296	7.166		
Total	2238.347	299			

Source: Primary data

The one-way ANOVA reveals that there is a statistically significant difference in the mean score of influence of prospect variables among different age groups (F (3, 296) = [5.448], *p* = .001). Hence, it can be inferred that there is a significant difference in the influence of prospect variables among different age groups of equity derivative traders in Kerala. Since data met the assumption of homogeneity of variances, Tukey's HSD

test has been used to check the exact significant difference among different age groups and the result is shown in Table 6.

Table 6 *Age group wise Post Hoc (HSD) analysis for multiple comparisons of influence of prospect variables on the trading decision of equity derivative traders*

Age of respondents (I)	Age of respondents (J)	Mean Difference (I-J)	Std. Error	*p*-value	95% Confidence Interval	
					Lower Bound	Upper Bound
Up to 30 *(1)*	31 - 40	-.15948	.37066	.973	-1.1172	.7982
	41 - 50	.03850	.46325	1.000	-1.1584	1.2354
	51 & above	2.16941*	.60906	.002	.5958	3.7430
31 – 40 *(2)*	Up to 30	.15948	.37066	.973	-.7982	1.1172
	41 - 50	.19798	.42823	.967	-.9084	1.3044
	51 & above	2.32889*	.58287	.000	.8229	3.8348
41 – 50 *(3)*	Up to 30	-.03850	.46325	1.000	-1.2354	1.1584
	31 - 40	-.19798	.42823	.967	-1.3044	.9084
	51 & above	2.13091*	.64571	.006	.4626	3.7992
51 & Above *(4)*	Up to 30	-2.16941*	.60906	.002	-3.7430	-.5958
	31 - 40	-2.32889*	.58287	.000	-3.8348	-.8229
	41 - 50	-2.13091*	.64571	.006	-3.7992	-.4626

Source: Primary data   * *The mean difference is significant at the 5% leve*l

Table 6 shows the result of the HSD test for multiple comparisons and it is found that the mean value of the influence of prospect variable is significantly different between age groups *1 and 4* (*p* = .002, 95% C.I. = [0.5958, 3.7430]), *2 and 4* (*p* = .000, 95% C.I. = [.8229, 3.8348]) and 3*and 4* (*p* = .006, 95% C.I. = [.4626, 3.7992]). From the above result, it can be concluded that influence of prospect variables is less among traders in the age groups of 51 and above.

6.3 Education Qualification-wise Analysis of the Influence of Prospect Variables on the Trading Decisions of Equity Derivative Traders.

On the basis of education level, the sample respondents are classified into five groups such as SSLC, Higher Secondary, Graduate, Post Graduate, and Professional. The level of education of traders may affect the level of influence of prospect variables on the trading decision. To test the same, descriptive analysis has been done which shows the mean score of influence of prospect variables among traders with different educational qualification. To find out the statistical significance of the difference in mean score One-way Analysis of Variance (ANOVA) is applied. The result is summarized in Table 7.

Table 7 *Descriptive statistics of Education qualification -wise analysis of Influence of Prospect variables*

Test Variable	Education Group	N	Mean ± SD
Influence of prospect variables	SSLC	13	13.00 ± 1.00
	Higher Secondary	10	12.20 ± 2.29
	Graduate	130	11.26 ± 2.74
	Post Graduate	92	11.67 ± 2.40
	Professional	55	9.25 ± 2.75
	Total	300	11.13 ± 2.74

Source: Primary data

From the above table, it is found that there is a significant difference in the mean score of influence of prospect variables among traders with different educational qualifications. The traders with SSLC have the highest mean score (13) of influence of prospect variables and traders with professional qualification have lowest mean score (9.25) of influence of prospect variables. The ANOVA is applied to test the significance of differences in the influence of prospect variables among traders of different educational qualification groups and the result is summarised in Table 8.

Table 8 *Result of One-way ANOVA: Education - wise analysis of Influence of prospect variables on the trading decision of equity derivative traders*

	Sum of Squares	df	Mean Square	F	*p*-value
Between Groups	279.825	4	69.956	10.54	<.01***
Within Groups	1957.361	295	6.635		
Total	2237.187	299			

Source: Primary data   ***The difference is significant at 1% level*

The one-way ANOVA reveals that there is a statistically significant difference in the mean score of influence of prospect variables among traders of different educational qualification groups (F (4, 295) = 10.54], p = <.01). To know the exact significant difference among different education groups Tukey's HSD test has been used and the result is shown in Table 9.

Table 9 *Education qualification wise Post Hoc (HSD) analysis for multiple comparison of the influence of prospect variables*

Education Level (I)	Education Level (J)	Mean Difference (I-J)	Std. Error	*p*-value	95% Confidence Interval	
					Lower Bound	Upper Bound
SSLC	Higher Secondary	.80000	1.08347	.947	-2.1738	3.7738
	Graduate	1.73846	.74929	.141	-.3181	3.7951
	Post Graduate	1.32609	.76323	.413	-.7688	3.4209
	Professional	3.74545*	.79438	.000	1.5651	5.9258
Higher Secondary	SSLC	-.80000	1.08347	.947	-3.7738	2.1738
	Graduate	.93846	.84531	.801	-1.3817	3.2586
	Post Graduate	.52609	.85769	.973	-1.8280	2.8802
	Professional	2.94545*	.88552	.009	.5149	5.3760
Graduate	SSLC	-1.73846	.74929	.141	-3.7951	.3181
	Higher Secondary	-.93846	.84531	.801	-3.2586	1.3817
	Post Graduate	-.41237	.35094	.766	-1.3756	.5509
	Professional	2.00699*	.41434	.000	.8697	3.1442
Post Graduate	SSLC	-1.32609	.76323	.413	-3.4209	.7688
	Higher Secondary	-.52609	.85769	.973	-2.8802	1.8280
	Graduate	.41237	.35094	.766	-.5509	1.3756
	Professional	2.41937*	.43904	.000	1.2143	3.6244
Professional	SSLC	-3.74545*	.79438	.000	-5.9258	-1.5651
	Higher Secondary	-2.94545*	.88552	.009	-5.3760	-.5149
	Graduate	-2.00699*	.41434	.000	-3.1442	-.8697
	Post Graduate	-2.41937*	.43904	.000	-3.6244	-1.2143

Source: Primary data   * *The mean difference is significant at the 5% level*

Table 9 shows the result of Tukey HSD test for multiple comparisons and it is found that the mean value of influence of prospect variables is significantly different between traders possessing educational qualification of *SSLC and Professional* (p = .000, 95% C.I. = [1.5651, 5.9258]), *Higher Secondary and Professional* (p = .009, 95% C.I. = [.5149, 5.3760]), *Graduate and Professional* (p = .000, 95% C.I. = [.8697, 3.1442]), and finally *Postgraduate and Professional* (p = .000, 95% C.I. = [1.2143, 3.6244]). There is no significant difference in mean score of influence of prospect variable between traders having qualification of SSLC to Post graduation. That means there is no significant difference in the influence of prospect variables among traders having qualifications of SSLC, Higher secondary, Graduation, and Post graduation.

6.4 Trading Experience-wise Analysis of the Influence of Prospect Variables on the Trading Decision of Equity Derivative Traders

The sample consists of equity derivative traders with varying years of trading experience. Hence it is relevant to examine whether there is any difference in the influence of prospect variables among different trading experience groups. On the basis of years of trading experience, the sample respondents are classified into four groups such as *2 years & below (1), 3-5 years (2), 5-10 years (3)* and *above 10 years (4)*. The number of years of trading experience of equity derivative traders may affect the influence level of prospect variables. To test the same, the descriptive analysis has been done which shows the mean score of influence of prospect variables on traders with different years of trading experience. To find out the statistical significance of the difference in mean score One-way Analysis of Variance (ANOVA) is performed. The result of descriptive analysis is summarized in Table 10.

Table 10 *Descriptive statistics of trading experience -wise analysis of Influence of prospect variables*

Test Variable	Trading experience	N	Mean ± SD
Influence of prospect variables	2 years and below	161	11.45 ± 2.74
	3-5 years	81	10.90 ± 2.61
	5-10 years	32	10.96 ± 2.62
	Above 10 years	26	10.00 ± 2.98
	Total	300	11.13 ± 2.74

Source: Primary data

From table 10 it is found that there is a very small difference in the mean score of influence of prospect variables between traders with different years of trading experience. The ANOVA is applied to test the significance of differences in the mean influence of prospect variables among traders with different years of experience and the result is summarised in Table 11.

Table 11 *Result of One-way ANOVA: Trading experience - wise analysis of Influence of prospect variables on the trading decision of equity derivative traders*

	Sum of Squares	**df**	**Mean Square**	**F**	***p*-value**
Between Groups	55.107	3	18.369		
Within Groups	2182.079	296	7.372	2.49	.060
Total	2237.187	299			

Source: Primary data

The one-way ANOVA result (F $(3,296)$ = [2.49], p = .060) reveals that there is no significant difference in the mean score of influence of prospect variables among traders of different trading experience. Hence, it can be concluded that the trading experience do not affect the influence of prospect variables.

6.5 Trading Capital-wise Analysis of the Influence of Prospect Variables on the Trading Decision of Equity Derivative Traders.

The amount of trading capital may affect the level of influence of prospect variables on the trading decisions of equity derivative traders. Hence it is important to examine whether there is any difference in the influence of prospect variables between traders of different trading capital. On the basis of trading capital, the respondents are classified into five groups such as *Below 1 lakh (group1)*, *1-5 lakhs (group2)*, *5-10 lakhs(group3)*, *10-20 lakhs (group4)* and *Above 20 lakhs (group5)*. To examine the relationship between trading capital and the influence of prospect variables, descriptive analysis has been done which shows the mean score of influence of prospect variables on traders with different amounts of trading capital. To find out the statistical significance of the difference in mean score One-way Analysis of Variance (ANOVA) is performed. The result of the descriptive analysis is summarized in Table 12.

Table 12 *Descriptive statistics of trading capital -wise analysis of influence of prospect variables*

Test Variable	**Trading capital**	**N**	**Mean ± SD**
	Below 1 lakh	74	11.61 ± 2.54
	1-5 lakhs	136	11.00 ± 2.76
Influence of Prospect variable	5-10 lakhs	29	10.76 ± 3.00
	10-20 lakhs	24	10.92 ± 2.95
	Above 20 lakhs	37	11.05 ± 2.69
	Total	300	11.13 ± 2.74

Source: Primary data

From Table 12 it is found that there is a very small difference in the mean score of influence of prospect variables among traders with different amounts of trading capital. The ANOVA is applied to test the significance of differences in the mean influence of prospect variables among traders with different amounts of trading capital and the result is summarised in Table 13.

Table 13 *Result of One-way ANOVA: Trading capital - wise analysis of the influence of prospect variables on the trading decision of equity derivative traders*

	Sum of Squares	**df**	**Mean Square**	**F**	***p*-value**
Between Groups	24.516	4	6.129		
Within Groups	2212.671	295	7.501	0.817	.515
Total	2237.187	299			

Source: Primary data

The one-way ANOVA result (F $(4,295)$ = [0.817], p = .515) reveals that there is no significant difference in the influence of prospect variable among equity derivative traders with different trading capital. So, it can be concluded that the trading capital of equity derivative traders have no influence on the level of influence of prospect variables.

VII.   Conclusion

This study looked at the impact of prospect variables on the trading decisions of equity derivative traders in Kerala. The distribution of found normal and therefore parametric tests were applied to examine the

relationship between variables. The findings of this study underscore the significant influence of prospect variables on the trading decisions of equity derivative traders. The propensity for loss aversion, regret aversion and mental accounting, as elucidated by prospect theory, profoundly shapes investor behaviour. These cognitive biases manifest in various trading strategies, risk-taking preferences, and market reactions.

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