

Should We Have SET INDEX PUT OPTIONS For Small Investors ?

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ABSTRACT

Many Thai authorities often concern most of Thai individual small investors in Security Exchange of Thailand (SET) are not well-suited for financial derivative products such as SET index Futures and Options because they are presumed to be typically unsophisticated and speculative. Other financial experts voice the authorities are too protective and unprepared for new derivative challenges. While one might think SET index call options would accelerate risk loving behaviors, another may argue SET index put options (SET O) are needed for hedging purpose in this high volatile market. Focusing only SET index put options merits to appeal for the authorities' support in establishing. Futures and Options market, our research has conclusively summarized that all full time individual as well as institutional investors are well educated and receptive to SET O as hedging devices. Most of the small investors greatly welcome SET O as the last resource hedging against their life time saving whereas large individual as well as institutional investors regard SET O as merely new financial products. It is so ironic that the authorities are trying to protect small investors by not encouraging. Futures and Options market establishment for the fear of excessive speculation and denying the freedom to hedge against the very small investors' own wishes.

INTRODUCTION - WHY SET INDEX PUT OPTIONS (SET O) RESEARCH STUDY?

Recently SET has gone through very turbulent years with high volatility in price movement unpredictable caused by both local and international even. During the gulf war in 1991, for instance, the SET index had a free fall from 1,150 to 695, whilst the arrest of SIA SONG alleged big time share manipulator in 1992 had caused drastic drop for more than 100 points. According to Phatra Thanakit/S.G. Warburg Securities Earning Guide December 1992 (1), the recent SIA SONG events had wiped out about 175 billion baht of market capitalization in SET. Recently in 1993 we have witnessed First City Investment (FCI) and Russia's unavailing coup attempt mishappens shaking the whole market. This always hurt numerous small time local investors dearly, while many foreign investors are wondering how to manage the price risk movement in this 'cowboy' market.

SET have been proven to be a star in emerging stock market with 2.5 trillion baht market capitalization (equivalent to over 60 pct. of GDP) and over 10 billion baht daily turnover as of November 1993 in comparison to 1987 market capitalization equivalent to 30 pct. of GDP and 3.0 billion baht daily turnover. (2) Khun Viroj Nualkae (1992) suggested further that, 'If the SET has better quality investors, the more stability of the capital market would be. The chance to develop new instruments such as debt market and futures and options would be greater.' (3) Dr. Vichit Surapongchai (1992) added, 'that as the result of financial liberalization, Thailand can

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not avoid the rapid changing environment in borderless world if it wants to be internationalized'. (4) Dr. Vichit continued that to be the financial center we needed to build mechanism and expertises for the new financial derivatives. It is imperative that the futures and options initiative may be needed for money as well as capital market. Khun Somsak Chaiporn et al (1992) summed up that all parties : Securities Exchange Commission (SEC). Ministry of Finance, SET, brokers and Bank of Thailand supported the establishment of Futures and Options Exchange Markets for risk management, but the authorities were afraid of excessive speculations. (5)

Eventhough futures, call and put options contract ought to be thought in a comprehensive sense, we select to do research on SET O for capital market only. The first primary reason is the SET seems to be the only growing capital market in contrary to money market. Second, after several interviews with SEC and SET authorities, we believed that the only way to win these authorities' supports for the establishment of futures and options market is to prove that this new financial derivatives are needed by well educated investors as the hedging instruments, not solely for speculation. Third, SET index contract seems to be the first natural choice for obvious reason liquidity.

OBJECTIVE

The purpose of this paper is to study the feasibility on SET INDEX PUT OPTIONS (SET O) addressing specific objectives as follows :

1. Are the SET full time investors in Bangkok ready for SET O ? : If yes, then what are their level of awareness? Is there no difference in awareness of SET O as hedging devices between before and after few minutes of briefing ? Revealing this query could give us the hints on how to prioritize the establishment of SET O or futures and options market.

2. Is the SET O viewed as a hedging or speculative device ? : Because it is very speculative instrument with highly leverage nature, most authorities could only view the obscure side of the derivative. However, we are trying to prove the desirable side of the derivative as hedging tool is coexisted and desperately needed attention. Should the small investors have faith in SEC and/or authorities as the safeguard until no hedging device is required ? Perhaps, should the SET O assist the foreigner to invest in SET comfortably ? Finally, what are the primary factors in buying decision ? Is the pricing on SET O premium or market setiment a major factor in decision to buy or not to buy ?

METHODOLOGY :

After selective interview with SEC top authorities, local and foreigner fund managers for questionanaire design, 206 full time individual investors and 25 institutional investors were responsed to our survey as shown in table 1. Whilst the individual investors were studied at stratified trading rooms in Bangkok, all licensed fund managers were interviewed in-dept by the researchers. The questionnaire flow chart is illustrated in exhibit 1. whereas the data processing flow chart is provided in exhibit 2. SPSS, FOXBASE, EXCEL and tailor made double data entry software programs were used for data processing and analysis. The following hypotheses were tested as follows :

- test ?
1. Could the participants' awareness be statistically proven by Wilcoxon
 2. Was the SET O noted as the hedging device verified by cross tabulations?

_____ Table 1 : Observations 'When and Where' _____

----- Exhibit 1 : Questionnaire Flow Chart -----

_____ Exhibit 2 : Data Processing Flow Chart -----

RESULTS

1. General Findings : Essentially both individual investors and fund managers are dominantly male, married with age between 25-34 years old as shown in exhibit 3. However, while the individual investors are normally entrepreneur with bachelor degree holding portfolio between 1-7. 5 millions baht and annual family income 300,000-500,000 baht, the fund managers in average have master degree and family income above one million taking care of portfolio well over one billion baht. As expected, in comparing to the individual, the institutional investors had dramatically more of everythings in trading : more transactions per week, more number of brokers' usage, more experience, more education, more family income and more money to manage. The insitutional and individual investors are estimated and accounted for 70 pct. and 30 pct. of the SET market respectively coincided with SET IN FOCUS 1991 (6).

During the survey- January 11-18, 93 about 87 pct. of all investors perceived the SET market was in very bullish trend expecting the SET index to break 1,100 marks. It is very interesting to note that all investors in average think gambling is not socially acceptable in contrary to Ms Joyce Moy 1992 claimed (7). Furthermore, the individual investors gave a not very satisfactory mark to SEC performance, while only mediocre marks were earned from the insitutions in contradictory to SEC percieved itself as white knight. (8)

2. Specific Findings :

2.1 The full time SET participants in Bangkok are ready for SET O. : Prior the briefing on the put options, generally in comparison to 19 pct. for the individual, about 64 pct. of the institutional claimed to have knowledge about options. It is very encouraging that a few minutes briefing or education could make a difference in awareness and knowledge as testified by the below Wilcoxon test result.

----- Table 2 : Wilcoxon test on before and after briefing SET O -----

Thus, we could reject the null hypothesis that there is no difference in awareness of SET O as hedging device between before and after briefing at statistically significant of 0.05 pct. level within the group investors with one 'weak' exception.

2.2.1 Is the SET O viewed as a hedging or speculative device? : A part from 10 missing value, all 231 observations consisted of 55 buyers (BUYER), 107 potential buyer (P-BUYER), and 59 not buyers (N-BUYER) of our SET O offers.

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Approximately 72.8 pct of the BUYER's interest is for hedging tool, while no need for SET O is cited for the main reason for almost half in N-BUYER as illustrated in table 3. About one fifth of N-BUYER and P-BUYER believe the SET O is too expensive and about one third cited no particular reason for not buying SET O

----- Table 3 : Why of Why not you buy SET O ?

The real promising area seems to be P-BUYER in which majority cite NO NEED reason for SET O in this up trend market. Moreover, from follow up depth interview before and/or after questionnaire and articles review, we found that hedging ideas were well regarded for the smallest bracket investors as the last protection for their life time saving but the local institutional investors viewed SET O as other financial products. However, the foreign institutional investors had implied that they were here, not for stability, but rather because of SET high volatility in order to be 'diversified' globally.

CONCLUSION

In the wake of financial liberization and high volatility in financial market, the need to manage risk is imminent. Our study had concluded that most of full time individual as well as institutional investors are well educated and receptive to the concept of using Set Index Put Opions (SET O) as hedging device. Despite of nearly all being saliently bullish in SET, a quarter of participants identified as the BUYER was ready to buy SET O for mostly hedging purposes and more than 50 pct. of all respondents named as the P-BUYER. It is interesting that the smallest bracket of investors treasured SET O most as the last resource hedging against their life time saving while the remainders viewed SET O as another financial products.

FINAL REMARKS :

This is partially extracted from 'A View On Feasibility Study For SET INDEX Put Options' paper by Mr. Pongsak Hoontrakul, Mrs. Patcharavalai Jayapani and Mrs. Panupa Tuvanimitgul as part of requirement for Joint Doctoral Program in Business Administration at Thammasat University, Chulalongkorn University, and National Institution of Development Administration. Hence, readers are encouraged to obtain great details from the original paper.

FOOTNOTES :

1. Suthiwartnarueput, Watanan, Earning Guide, page 4, Phatra Thanakit/S.G. Warburg Securities, December 1992.
2. _____, Manager, daily newspaper, November 12,93, page 16.
3. Nualkae, Viroj, Extraction from SASIN 10th Anniversary 1992 Seminar on 'Financial Market, Capital Market : Opportunities and Threats in the 90's'
4. Surapongchai, Vichit. Extraction from SASIN 10th Anniversary 1992 Seminar on 'Financial Market, Capital Market : Opportunities and Threats in the 90's'

5. Chaiporn, Somsak et al. 'MBA Executive Research Project : Financial Institution Marketing Survey for Futures and Options' - Faculty of Commerce and Accountancy, Thammasat University, April 1992.

6. 'SET IN FOCUS - World Bank Conference 1991' Phartra Research Institutes/ S.G. Warburg Securities, page 105.

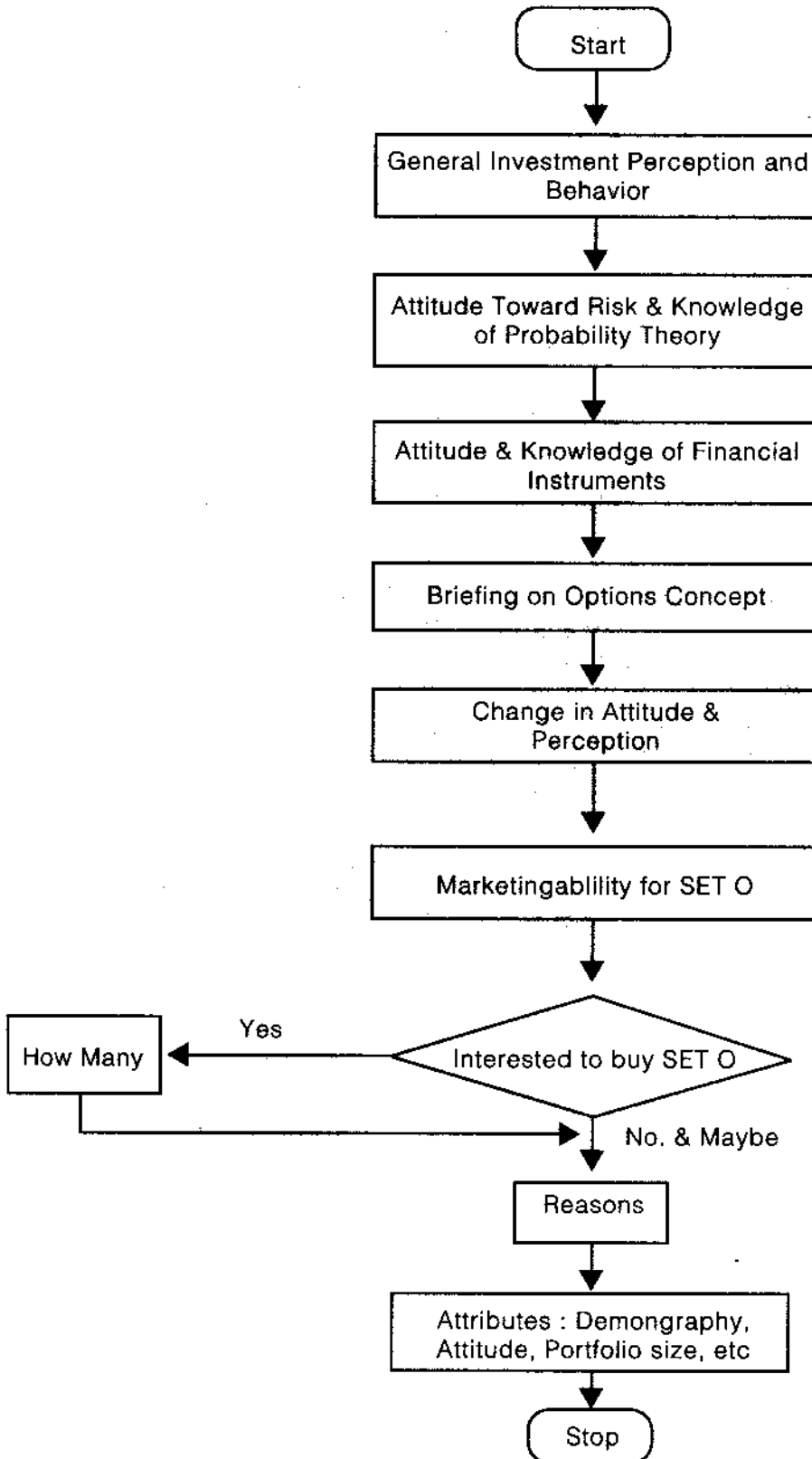
7. Moy, Joyce. 'LIVING ON LUCK', Asia magazine, Dec. 4-6. 92 page 8-14

8. Trairatvorakul, Prasarn, Extraction from interview on 'THE AIM OF SEC IS TO DEVELOP CAPITAL MARKET', Prachachat Business, Feb. 21-24, 93, page 12.

TABLE 1 (CONT.) : OBSERVATIONS 'WHEN AND WHERE'

TYPE 2	INSTITUTION INVESTOR	
DATE	PLACE	OBSERVATION
11 JAN'93	NITHIPAT FINANCE CO., LTD. (SILOM)	1
11 JAN'93	THAI CAPITAL MANAGEMENT CO., LTD.	1
12 JAN'93	THAI ASIA MUTUAL FUND CO., LTD.	1
12 JAN'93	NATIONAL FINANCE & SECURITIES CO., LTD.	1
12 JAN'93	SIAM CITY CREDIT FINANCE & SECURITIES CO., LTD.	1
13 JAN'93	INDUSTRIAL FINANCE CORPORATION OF THAILAND	1
13 JAN'93	SMITH NEW COURT FAR EAST LTD.	1
13 JAN'93	THE MUTUAL FUND CO., LTD.	5
13 JAN'93	ONE INVESTMENT CO., LTD.	1
13 JAN'93	THAI FARMERS ASSET MANAGEMENT CO., LTD.	1
13 JAN'93	SCB ASSET MANAGEMENT CO., LTD.	4
15 JAN'93	BARCLAYS DE ZOETE WEDD. (REPRESENTATIVE)	1
15 JAN'93	CMIC FINANCE AND SECURITIES CO., LTD.	1
15 JAN'93	CITICORP FINANCE LTD.	1
15 JAN'93	S.G. WARBURGE SECURITIES LTD.	1
15 JAN'93	NIKKO SECURITIES CO., LTD. (REPRESENTATIVE)	1
18 JAN'93	J.F. THANAKOM CO., LTD. (JARDINE)	1
22 JAN'93	GS ASSET MANAGEMENT CO., LTD.	1
TOTAL		25

Appendix 2A : Questionnaire Flowchart



Appendix 2B : Data Processing Flow Chart

