DERIVATIVES RETAIL INVESTOR SURVEY 2001/02

– REPORT –

Hong Kong Exchanges and Clearing Limited

Research & Policy, Corporate Strategy

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CONTENTS

EXECUTIVE SUMMARY

Hong Kong Exchanges and Clearing Limited (HKEx) conducted the Derivatives Retail Investor Survey (DRIS) for the first time in 2001/02 to study retail participation in the Hong Kong derivatives market, and the investment behaviour, attitude and opinions of derivatives retail investors in Hong Kong.

The DRIS was conducted in two stages — a mail questionnaire survey and personal interviews. The 263 respondents to the mail survey were clients of selected Futures Exchange Participants (FEPs) who supported the survey and the 9 interviewees in the personal interview exercise were relatively active investors selected among the survey respondents. Findings and comments in this report were primarily based on the mail survey, supplemented by opinions obtained from the personal interviews.

Limitations

It should be emphasised that the above methodology does not constitute a random sample. Therefore the survey findings cannot be projected onto the investor population as a whole with statistical accuracy.

Nonetheless, the DRIS is the only survey so far conducted in Hong Kong with findings on derivatives retail investors' profile, investment behaviour and opinions. The findings of this survey would serve as reference in an otherwise empty picture.

Respondents' profile

Respondents to DRIS were predominantly males in their 40s, mostly highly educated and of a high working status.

Products invested in

HSI futures and options were the most popular products in terms of investment incidence and frequency of trading. 68%, 47% and 35% of the mail survey respondents invested in HSI futures, Mini-HSI futures and HSI options respectively. Meanwhile, 61% of the respondents traded HSI futures most frequently, followed by Mini-HSI futures (42%) and HSI options (27%).

Investment experience and trading pattern

The median number of years of experience in trading HKEx futures or options was 4 and the median trading frequency was one to two times a week. The median deal size was HK$60,000. Males were found to trade more frequently than females. Those with higher income tended to have a higher usual deal size.

Investment behaviour and attitude

54% of the respondents were motivated to start derivatives trading by their stock trading experience. Trading for profit (71% of the respondents) was the key reason for trading derivatives. To stimulate more trading, a more liquid market (chosen by 57% of the respondents) and a more transparent market (55%) were considered the major motivating factors.

Online trading

18% of the respondents had online trading experience in HKEx futures or options (either through Internet or other electronic media). Lower commission (53%) was most frequently chosen as the motivating factor for more online trading.

Perceptions of the HKEx derivatives market

Overall, the mail survey respondents' perceptions of HKEx derivatives market were positive. More than half of the mail survey respondents agreed that clearing, settlement and trading at HKEx were efficient and HKEx derivatives market was considered an orderly market. Over 30% of the respondents were positive about market fairness and the variety of derivative products being sufficient, with less than a quarter having negative opinions. However, less than 30% of respondents were positive (against 30% or more of the respondents being negative) about the ease of obtaining market data and the adequacy of market data and information.

1. BACKGROUND AND OBJECTIVES

During November 2001 to March 2002, Hong Kong Exchanges and Clearing Limited (HKEx) conducted the Derivatives Retail Investor Survey (DRIS) to study retail participation in the Hong Kong derivatives market for the first time. The survey findings serve as an input to the provision of better services to the retail investors investing in HKEx derivative products.

Derivatives retail investors (DRI) *are defined as individuals who at the time of the survey were holding or had traded derivative products on HKEx in the past 12 months.*

In respect of the incidence and percentage of the adult population being derivatives retail investors, statistics were obtained from the HKEx's Retail Investor Survey 2001 (RIS 2001) conducted in December 2001. However, the RIS 2001 focused mainly on the stock investors and did not address the investment behaviour and opinions of the derivatives investors on the HKEx derivatives market. The DRIS attempts to fill in the gap.

Specific objectives of the survey are:

- To understand the profile, investment behaviour and attitude of derivatives retail investors;
- To assess derivatives retail investors' satisfaction level with and perceptions of the HKEx derivatives market and the HKEx related services;
- To identify areas for developing the HKEx derivatives market.

2. METHODOLOGY

The survey was conducted in two stages — a mail questionnaire survey during November to December 2001 and personal interviews during February to March 2002.

In the first stage of the mail survey, a structured questionnaire was used to obtain information about investors' investment behaviour and attitude, and satisfaction level with the general derivatives market environment. To reach the derivatives retail investors, Futures Exchange Participants (FEPs) which have large retail clientele were invited to mail the questionnaire to their clients on behalf of HKEx. Three FEPs agreed to support this survey. Retail clients of these FEPs were mailed the questionnaire and were asked to self-complete and return the questionnaire on a voluntary basis. Out of a total of 1,850 questionnaires mailed out, 269 completed questionnaires were received, representing an overall response rate of 15%. Among the respondents, 6 were non-derivatives retail investors (non-DRIs), i.e. not holding and not having traded derivative products on HKEx in the past 12 months. They were excluded in the subsequent analysis, resulting in a sample of 263 DRIs for analysis.

The second stage of personal interviews was to obtain more in-depth opinions about HKEx market operation and development. Active investors in terms of trading frequency and transaction amount were identified among the respondents to the mail survey and were invited for an individual face-to-face or telephone interview. Of the 41 investors invited, 9 interviews were successfully completed (2 face-to-face and 7 over the phone). All these interviewees traded at least 3 times a week and had a usual deal size of more than HK$60,000.

The report presents mainly the findings and comments obtained from the mail survey, supplemented by opinions obtained from the personal interviews in the second stage.

3. LIMITATIONS

For the mail survey, a number of limitations might result in sampling bias and/or lower the reliability of the survey findings. They include:

(1) Prospective respondents were the retail clients of only three FEPs rather than all derivatives retail investors in Hong Kong or a random sample of them.

(2) The investors were requested to return the questionnaire on a voluntary basis. The returned sample might consist of individuals of attributes and opinions different from those of the non-respondents.

(3) The questionnaire targeted only retail investors, i.e. individuals trading on personal account. Large retail clients who traded on company account might be screened out and their opinions would then not be captured.

(4) The resultant sample of 263 would not be large enough to assure high reliability of the results.

(5) There is discrepancy between the socio-economic profile of the DRIS respondents and a more representative DRI profile found from the Retail Investor Survey 2001 (RIS 2001). This should be borne in mind when interpreting findings in this report.

The personal interviews were meant to obtain in-depth opinions that the mail survey was unable to obtain. However, only a small number of investors were interviewed. They were confined to the relatively more active traders. Opinions obtained might be specific to this group of interviewees and were used to amplify the mail survey findings only.

It should be emphasised that the survey methodology does not constitute a random sample. Therefore the survey findings cannot be projected onto the investor population as a whole with statistical accuracy.

Nonetheless, the DRIS is the only survey so far conducted in Hong Kong with findings on derivatives retail investors' profile, investment behaviour and opinions. The findings of this survey would serve as reference in an otherwise empty picture.

4. RESPONDENTS' PROFILE (COMPARED WITH RIS FINDINGS)

Compared with the more representative sample of derivatives retail investors from the RIS, the DRIS respondents comprised a much larger proportion of males, more older persons of a higher education level, higher working status and with higher monthly personal income. Such discrepancy between the characteristics of the DRIS respondents and those of the "typical" derivatives retail investor should be borne in mind when interpreting the findings presented below.

Respondents to the DRIS consisted predominantly of males in their 40s. More than half of the respondents had completed tertiary education or above and were of a high working status such as professionals or managers. The median monthly personal income was HK$30,800. *(Table 1)*

Table 1. Derivatives retail investor profile obtained from HKEx Derivatives Retail Investor Survey 2001/02 (DRIS 2001/02) and Retail Investor Survey 2001 (RIS 2001)

	Derivatives Retail Investors	
	DRIS 2001/02	RIS 2001
	%	%
Sex		
Male	80	58
Female	20	42
Age		
18-19	0	2
20-29	14	18
30-39	32	35
40-49	36	23
50-59	13	16
60 or above	6	7
Median	*42*	*37*
Education level		
No formal schooling	2	0
Primary school	3	10
Secondary school	31	48
Matriculated	11	7
Tertiary education or above	54	35
Median monthly personal income (HK$)	30,800	22,500
Median monthly household income (HK$)	N/A	35,000
Occupation		
Professional/executive/proprietor/merchant	65	28
White collar	15	25
Blue collar	4	26
Housewife	6	12
Retired	7	6
Student	1	1
Others	2	2
Sample size	*(263)*	*(202)*
% of adult population		*[5%]*

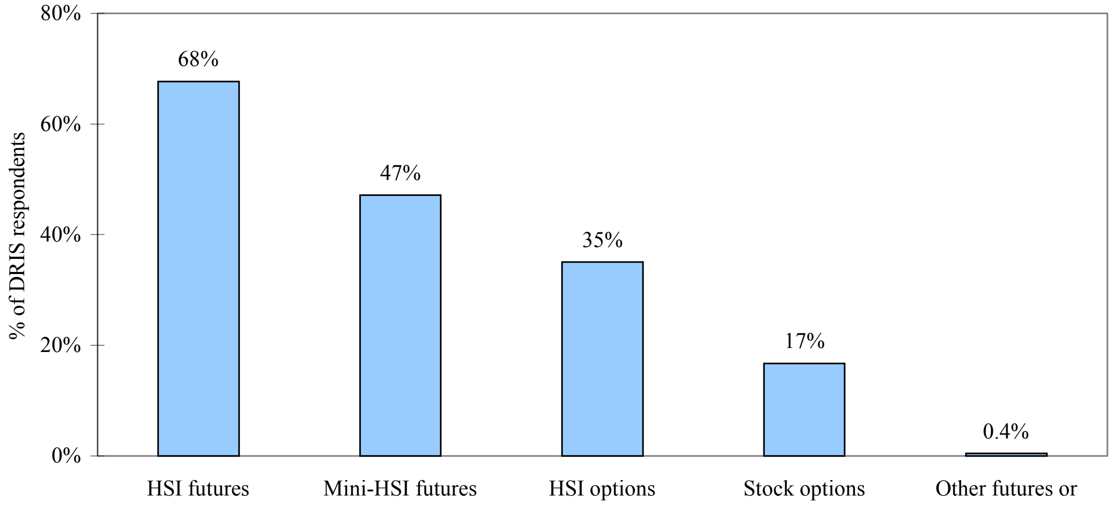
Base: Supporting FEP's retail clients (DRIS); individuals aged 18 and over (RIS).
N/A: Not available.

5. PRODUCTS INVESTED IN

5.1 Frequency distribution of invested products

The percentage of respondents investing in each of the HKEx derivative products is shown in Figure 1. HSI futures and HSI-related products were the most popular products invested in.[1] 68% of the respondents invested in HSI futures. 47% and 35% of the respondents invested in Mini-HSI futures and HSI options respectively.

Figure 1. Frequency distribution of respondents invested in HKEx derivative products



Base : DRIS respondents (263)
Note: Mulitple answers allowed.

A large proportion (54%) of the DRIS respondents also invested in HKEx cash products. In contrast, only about 18% of the respondents also invested in overseas stocks or derivative products. (Table 2)

Table 2. Cross-investment of products by DRI respondents (%)

Invested in HKEx derivative product	Cross-invested in HKEx cash products*	Cross-invested in overseas products			
		Stocks only	Derivatives only	Either stocks or derivatives	Both stocks and derivatives
HSI futures	36.5	9.1	9.1	15.1	3.0
Mini-HSI futures	24.3	2.7	3.4	4.6	1.5
HSI options	16.7	4.2	4.9	6.8	2.3
Stock options	10.6	3.0	2.7	3.8	1.9
Other futures or options on HKEx	0.4	0.0	0.4	0.4	0.0
Any of the above	53.6	10.3	10.6	17.5	3.4

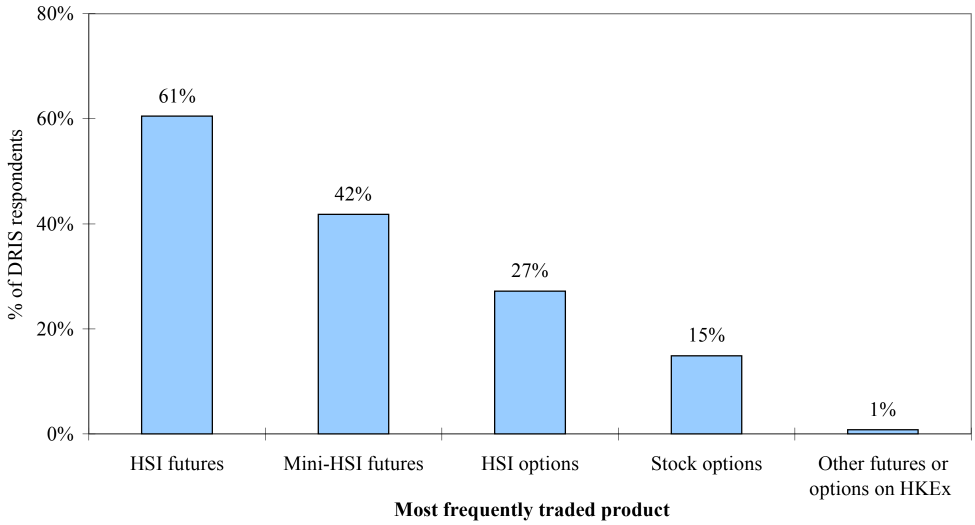
Base: DRIS respondents (263)
* Including HKEx stocks, warrants or Tracker Fund.

[1] *Held at the time of the survey or had traded the product in the past 12 months.*

5.2 Frequently traded HKEx derivative products

In terms of frequency of trading, HSI futures was also the most popular product — 61% of the DRIS respondents traded it most frequently. It was followed by Mini-HSI futures (42%) and HSI options (27%).

Figure 2. Most frequently traded HKEx derivative products



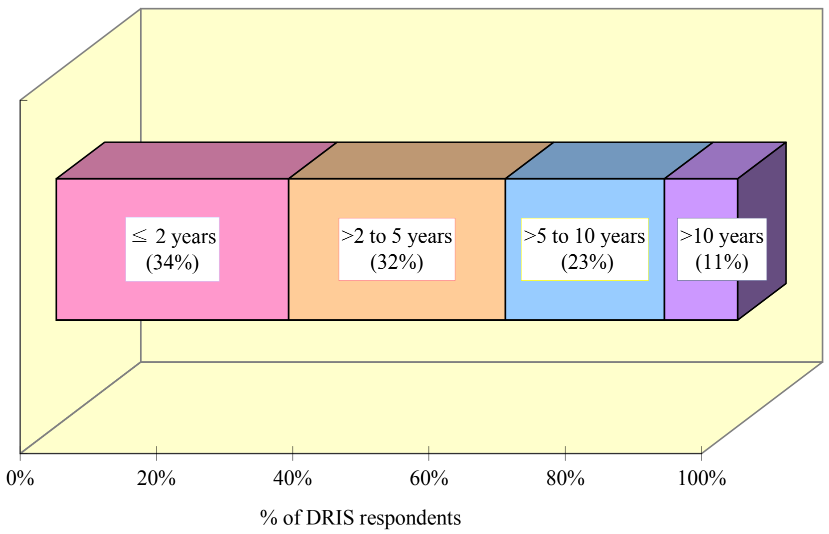
Base : DRIS respondents (261)
Note: Mulitple answers allowed.

6. INVESTMENT EXPERIENCE AND TRADING PATTERN

6.1 Years of experience

The median number of years of experience in trading HKEx futures or options was 4. Around 65% of the DRIS respondents first entered the market in the last five years, 34% had not more than two years' experience, and 22% entered the market in the recent year only.

Figure 3. Years of experience in trading HKEx futures or options

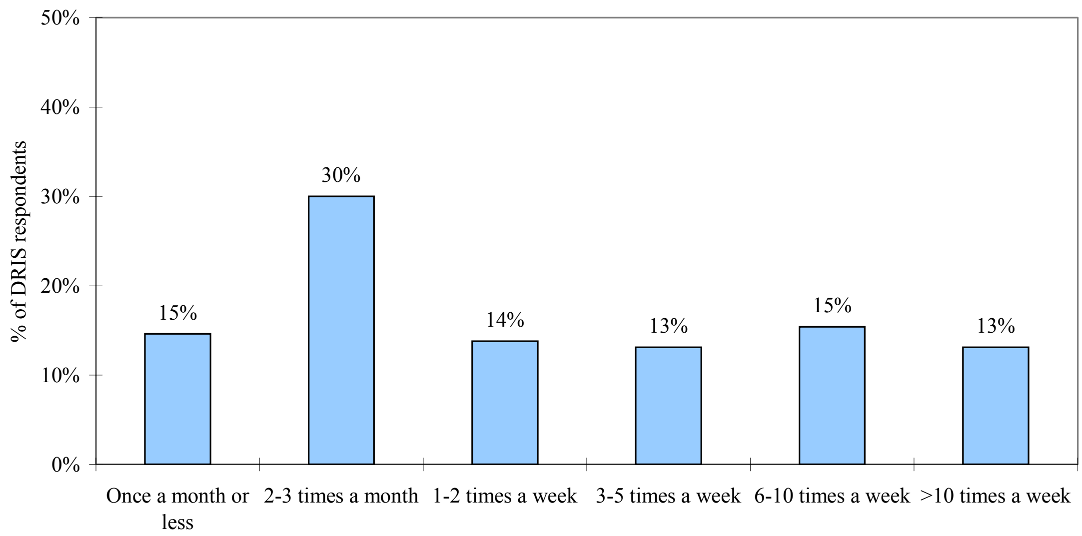


Base : DRIS respondents (212)

6.2 Frequency of trading

Nearly half of the DRIS respondents (45%) were infrequent traders — 3 times or less in a month. Only 13% traded more than 10 times a week. The median was one to two times a week.

Figure 4. Frequency of trading HKEx futures or options

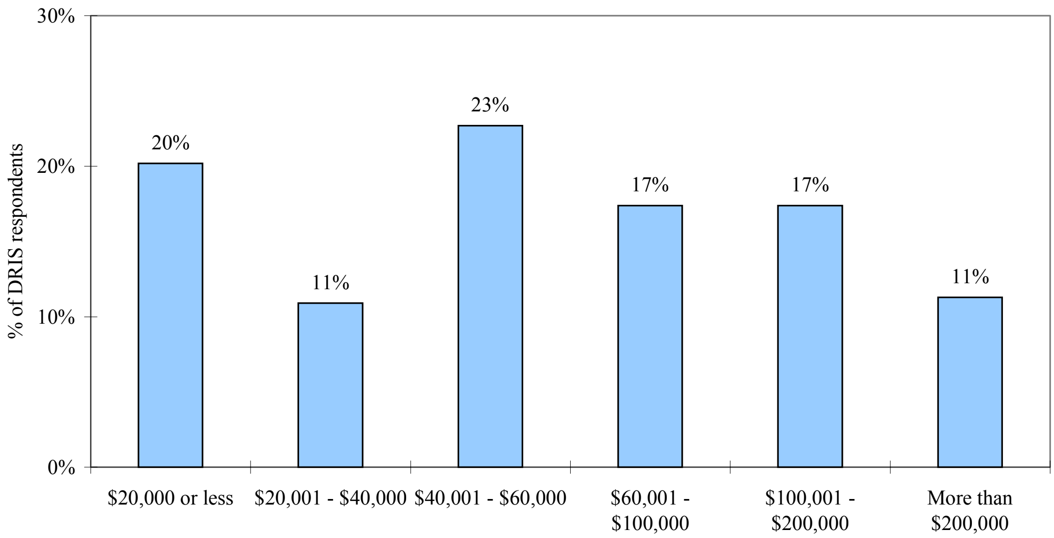


Base : DRIS respondents (260)

6.3 Usual deal size

The median deal size (initial margin for a transaction) was HK$60,000. Almost 30% of the DRIS respondents had a usual deal size of over HK$100,000.

Figure 5. Usual deal size



Base : DRIS respondents (247)

6.4 Analysis of trading pattern by different investor characteristics

Years of experience and usual deal size by trading frequency

No statistically significant difference was found in the years of trading experience or usual deal size by different trading frequency.

Usual deal size by years of experience

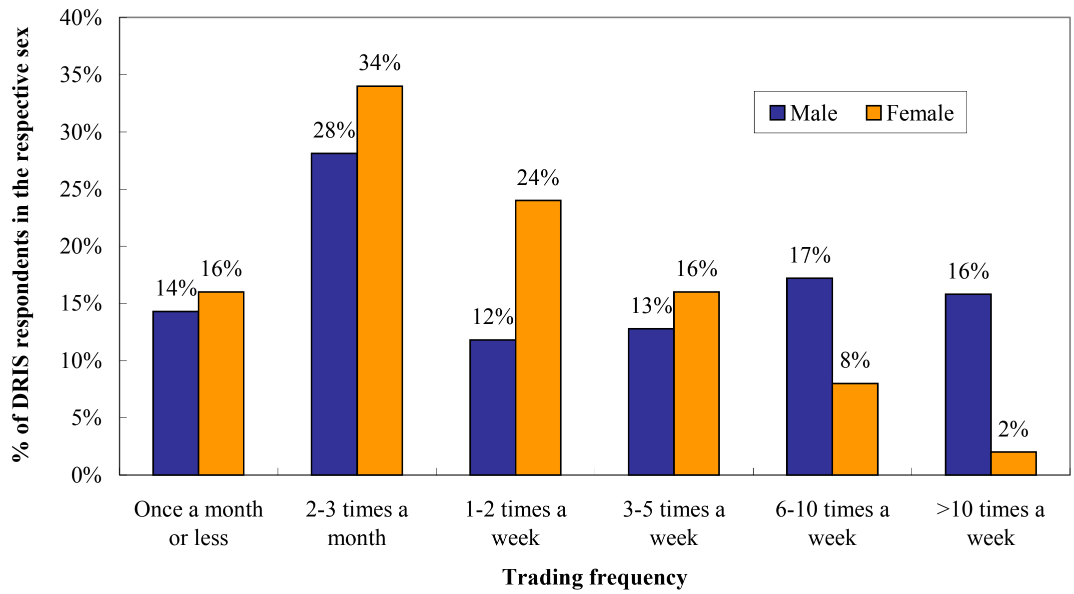
A moderate and positive correlation (non-parametric correlation coefficient is 0.498) was found between years of trading experience and usual deal size. That is, the longer the investor's experience in the market, the larger his/her usual transaction amount.

By demographics

Difference in trading frequency and usual deal size by sex, age, education level, income and occupation were examined. Statistically significant differences were found in the following:

- Male investors tended to trade more frequently. 33% of males traded at least 6 times a week whereas 10% of females did so. The respective medians were 1-2 times a week for male investors and 2-3 times a month for female investors.

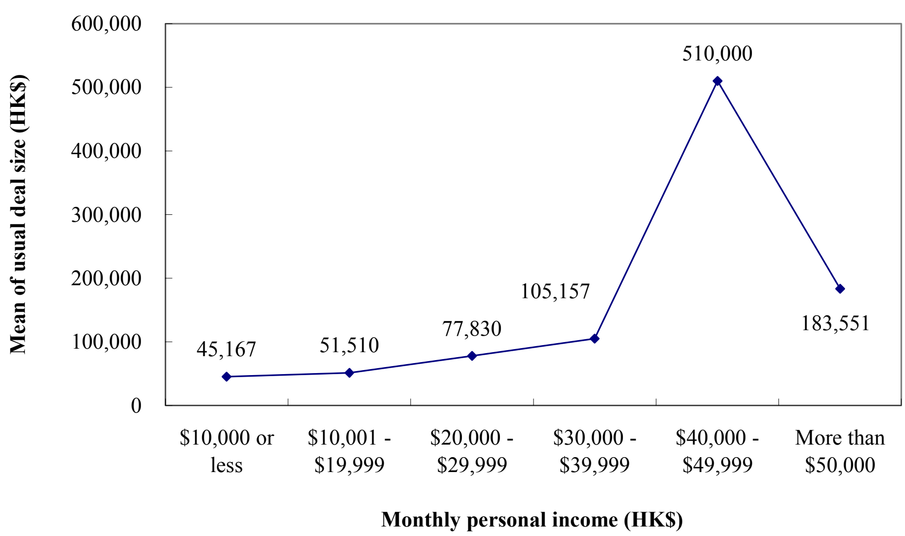
Figure 6. Percentage of male/female investors by trading frequency



Base: Male respondents (203); female respondents (50)

- The usual deal size of investors with higher personal incomes tended to be larger. Note that the sharp upsurge of usual deal size at monthly personal income in the range of $40,000 to $49,999 might be an outlier resulting from the small sample size.

Figure 7. Mean of usual deal size by monthly personal income



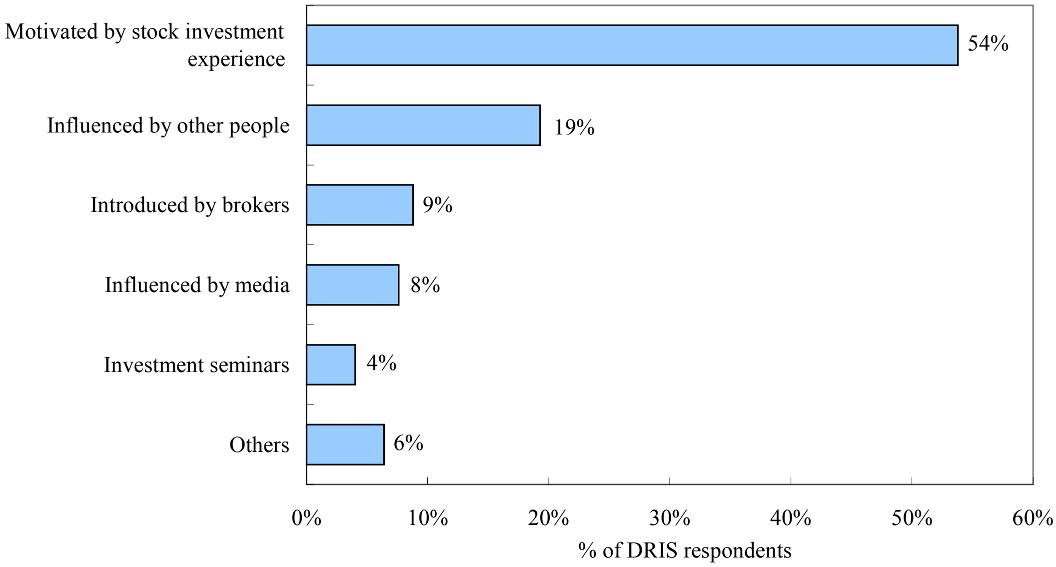
Base: DRIS respondents (234)

7. INVESTMENT BEHAVIOUR AND ATTITUDE

7.1 Occasion of market entry

54% of the DRIS respondents were motivated by their stock trading experience to start derivatives trading. This factor significantly outweighed other motivating factors.

Figure 8. Occasion of market entry

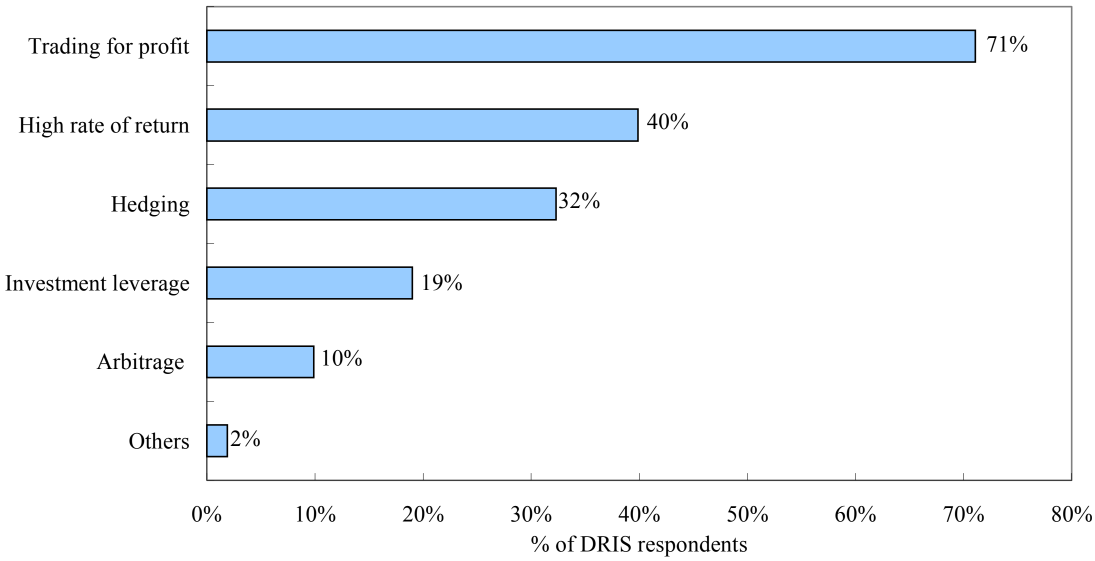


Base : DRIS respondents (249)

7.2 Main reasons for derivatives trading

Trading for profit (71%) was the key reason frequently mentioned by the DRIS respondents. That was followed by high rate of return (40%) and hedging (32%).

Figure 9. Main reasons for trading HKEx futures or options

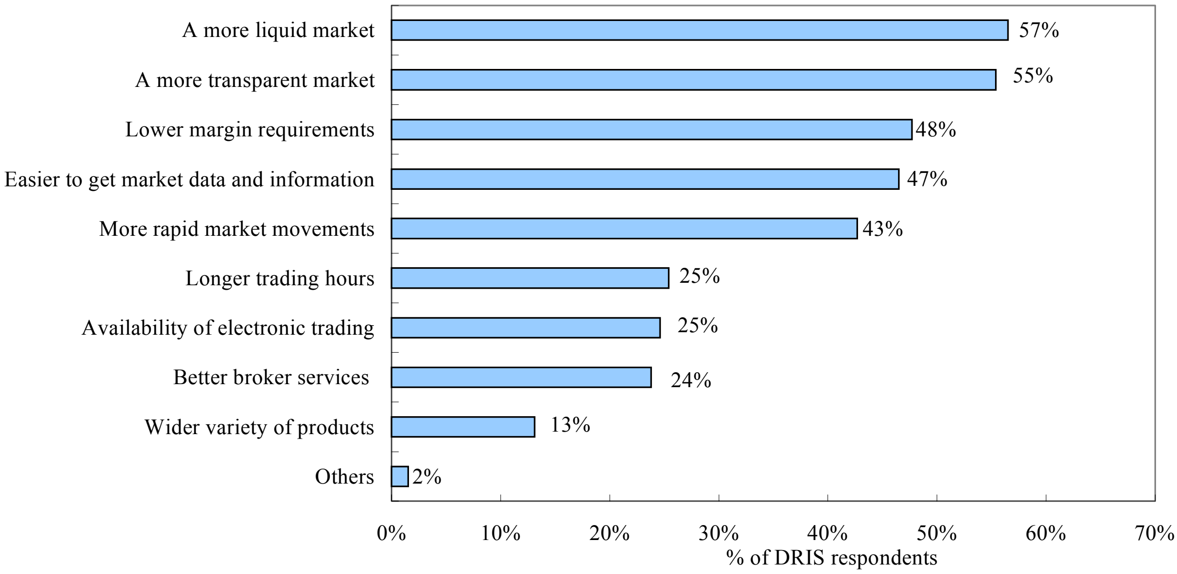


Base : DRIS respondents (263)
Note: Mulitple answers allowed.

7.3 Motivating factors for trading more

The most significant motivating factors mentioned by the DRIS respondents were a more liquid market (57% of the respondents) and a more transparent market (55%). Other significant factors included lower margin requirements (48%), easier means to get market data and information (47%) and more rapid market movements (43%). More than 30 mail survey respondents asked for improvement in market transparency or information content and dissemination.

Figure 10. Motivating factors for trading more HKEx futures or options



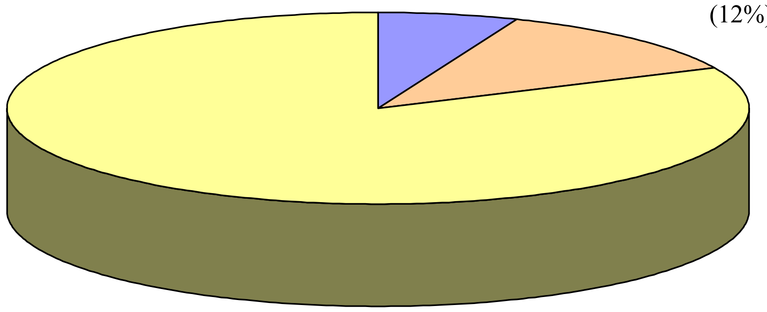
Base : DRIS respondents (260)
Note: Mulitple answers allowed.

8. ONLINE TRADING

8.1 Frequency of online trading

18% of the DRIS respondents had online trading experience in HKEx futures or options — 6% were heavy online traders[2] and 12% were partial online traders.[3]

Figure 11. Proportion of derivatives online traders



Base : DRIS respndents (247)

8.2 Online traders' profile and their trading pattern

Since the sample size of online traders was small, statistics on their profile and behaviour would be indicative only.

Compared to non-online traders, online traders had a larger proportion of males (91% vs 79% for non-online) and young persons (median age was 35 vs 42 for non-online), with lower income (median monthly personal income of HK$22,700 vs HK$36,300 for non-online). *(Table 3)*

Online traders had fewer years of trading experience in derivatives. They traded more frequently than non-online traders but in a smaller deal size. *(Table 3)*

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[2] *Heavy online traders were those who placed all of their orders via online media, either for stock options or for HKFE futures and options.*

[3] *Partial online traders were those who placed part of their orders via online media, for both stock options (if any) and HKFE futures and options.*

Table 3. Profile of online and non-online traders and their trading pattern

	Online traders %	Non-online traders %
Sex		
Male	91	79
Female	9	21
Age		
18-19	0	0
20-29	27	12
30-39	40	31
40-49	29	36
50-59	4	15
60 or above	0	7
Median	*35*	*42*
Education level		
No formal schooling	2	1
Primary school	2	3
Secondary school	27	31
Matriculated	9	11
Tertiary education or above	60	55
Median monthly personal income (HK$)	22,700	36,300
Occupation		
Professional/executive/proprietor/merchant	56	69
White collar	29	12
Blue collar	7	3
Housewife	0	6
Retired	2	8
Student	2	1
Others	4	1
Median years of experience	2	4
Median frequency of trading	6 to 10 times a week	1 to 2 times a week
Median deal size* (HK$)	25,000	75,000
Sample size	*(45)*	*(201)*

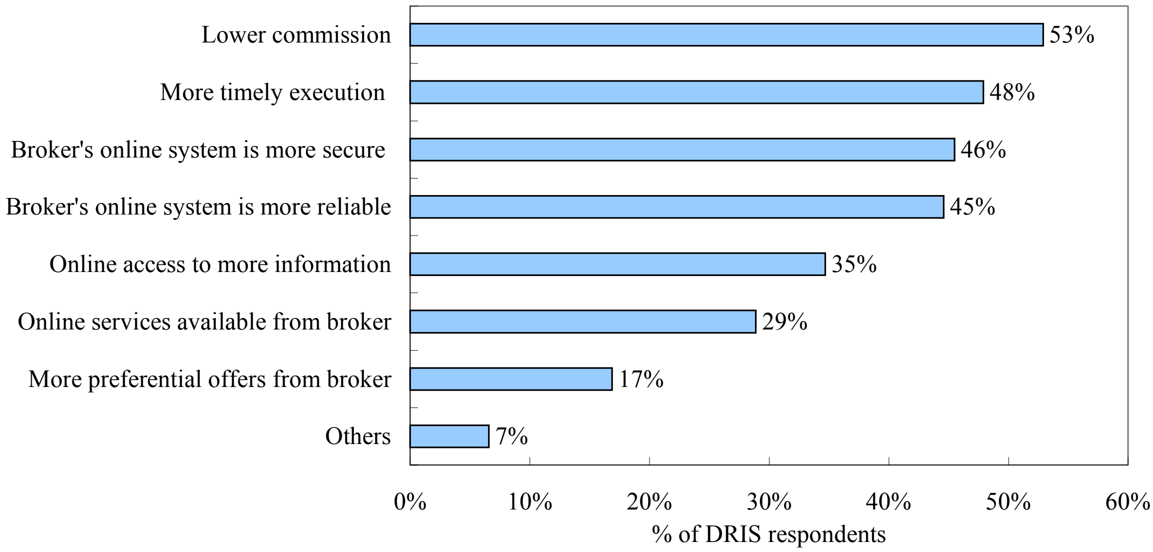
* Initial margin for a transaction.

Base: DRIS respondents

8.3 Motivating factors for more online trading

Lower commission (53%) was the most frequently chosen motivating factor for more online trading. Other important factors included more timely execution (48%), broker's online system being more secure (45%) and reliable (44%). Note that 29% of the DRIS respondents chose "online services available from broker" as a motivating factor for trading online. This implies that online trading services for derivatives were not readily made available to them by their brokers.

Figure 12. Motivating factors for trading more HKEx futures or options online

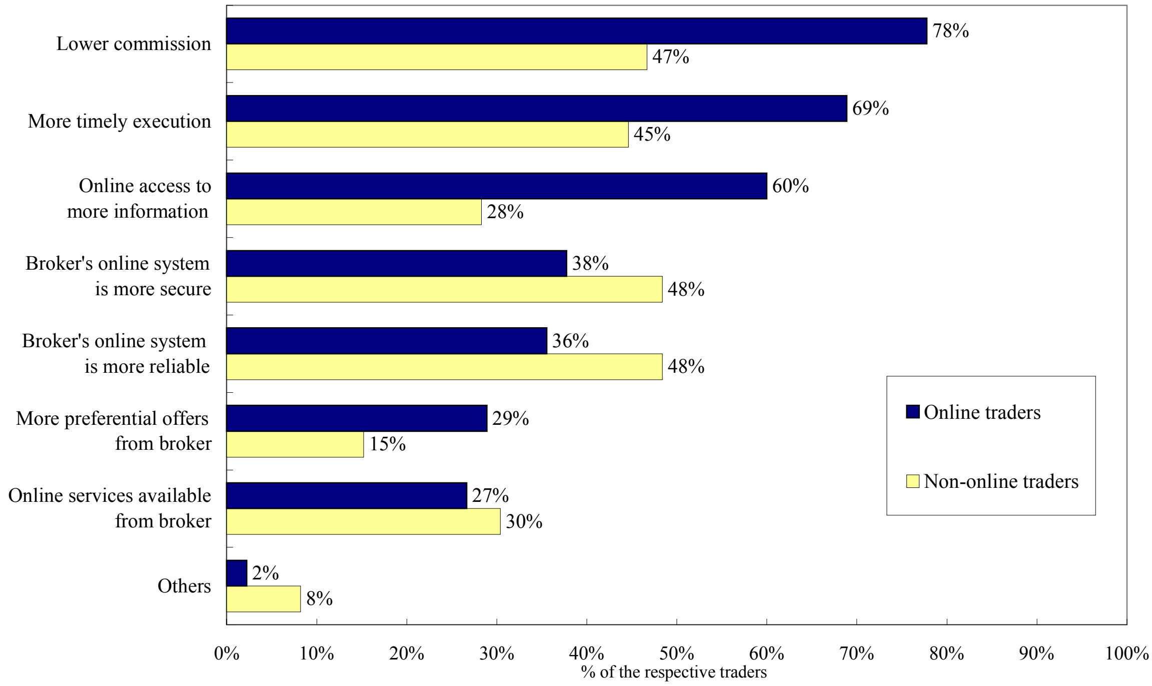


Base : DRIS respondents (242)
Note: Mulitple answers allowed.

Online and non-online traders were found to have different motivating factors. Lower commission, more timely execution and online access to more information were more important to online traders (chosen respectively by 78%, 69% and 60% of online traders). For non-online traders, security and reliability of the broker's online system were their most important concerns (48%) if they were to trade online.

Convenience, privacy and low cost were attractions of online trading to the two interviewees who were online traders. For interviewees not trading online, convenient access to traditional broker service was the reason most often mentioned.

Figure 13. Motivating factors for trading more HKEx futures or options online



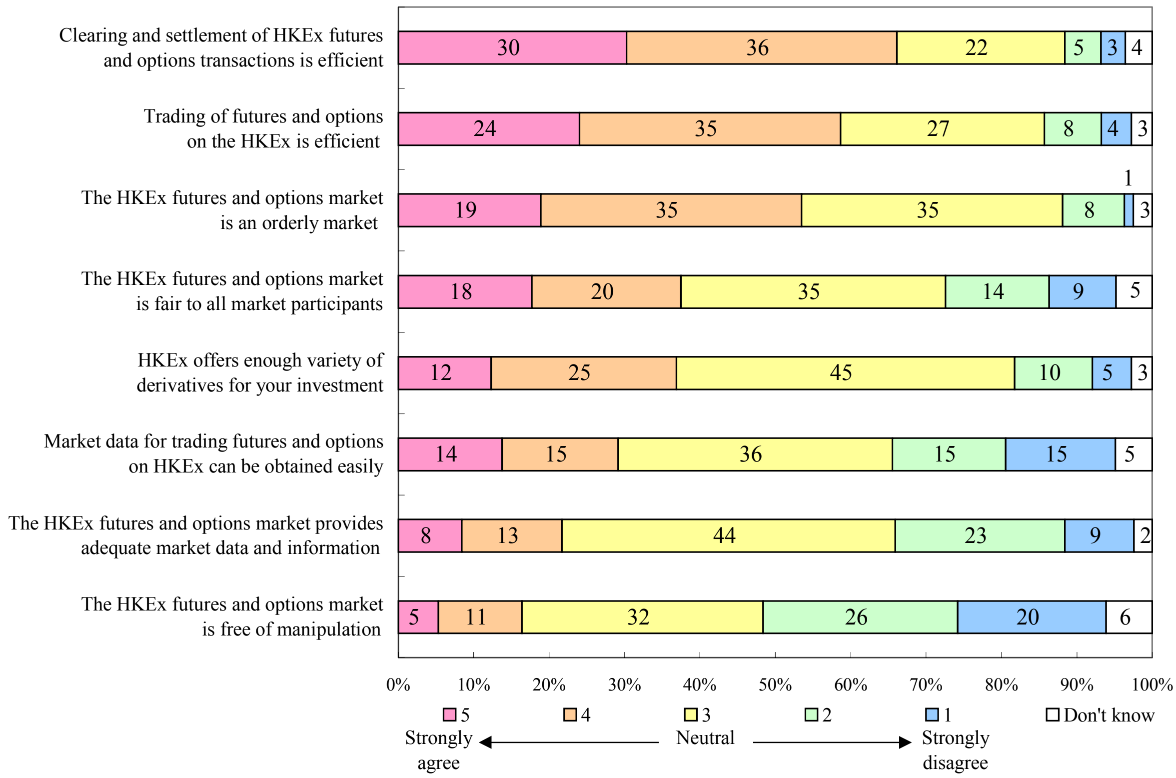
Base: Online traders (45), non-online traders (184) among DRIS respondents (229)
Note: Multiple answers allowed.

9. PERCEPTIONS OF THE HKEx DERIVATIVES MARKET

The trading and settlement operations of HKEx derivatives market was the most satisfactory area — 66% of the respondents agreed that clearing and settlement was efficient and 59% agreed that trading was efficient.

54% of the respondents agreed that the HKEx futures and options market was an orderly market. Market fairness was generally satisfactory (38% agreed and 35% neutral) but 23% showed dissatisfaction. Respondents showed the least satisfaction with information provision — 29% satisfied against 30% dissatisfied about the ease of information access; and 22% satisfied against 32% dissatisfied about information adequacy.

Figure 14. Perceptions of the HKEx derivatives market



Base : DRIS respondents (253)

10. OTHER OPINIONS

Apart from those mentioned in sections above, other opinions on market operation and services were obtained from the mail survey and the interviews. The major ones are summarised below.

- A considerable number of respondents mentioned that the liquidity of derivative products other than HSI futures was low.

- Increasing product variety was quite frequently mentioned. Several respondents showed interests in trading overseas products. The interviewees, being the more active traders, were generally interested in overseas-related derivative products on the condition of sufficient liquidity.

- Some respondents complained of high transaction costs or margin requirements. Yet the interviewees who were relatively more active traders did not have much complaint.

- Opinions raised on the extension of trading hours were diverse, but more were on the support side than on the objection side.

- Some respondents asked for better regulation of market activities.

***** END *****