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Market Stimuli and Investor Responses: A S-O-R Analysis of Equity Derivatives

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Abstract: This study investigates how external market stimuli shape investor behaviour in equity derivatives using the Stimulus–Organism–Response (S-O-R) framework. Market volatility, regulatory changes, and financial news were examined as stimuli influencing risk perception, which in turn drives hedging behaviour. Primary data were collected from 240 active Indian equity derivative investors and analysed through structural equation modelling. The findings indicate that market volatility ($\beta = 0.538$, $p < 0.001$) and regulatory changes ($\beta = 0.188$, $p = 0.004$) significantly heighten risk perception, which strongly predicts hedging behaviour ($\beta = 0.761$, $p < 0.001$). Financial news, however, showed no significant impact ($\beta = 0.119$, $p = 0.067$), suggesting seasoned investors depend more on market signals than media narratives. The study contributes to behavioural finance by establishing risk perception as a central mediator and offers practical implications for regulators, advisors, and media in guiding investor decisions under uncertainty.

Keywords: Behavioural Finance, Risk Perception, Hedging Behaviour, Equity Derivatives, Market Volatility

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