

The Retail Trap in Derivatives Trading: A Longitudinal Study of Bank Nifty Options (2018–2024)

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Abstract

This article examines six years of retail trading in Bank Nifty options (2018–2024) not as a series of rational economic decisions, but as a recurring psychological and structural phenomenon: the Retail Trap. Drawing on trade data, behavioural patterns, and market microstructure, we argue that derivatives markets have become apparatuses of subjective entrapment—where hope, illusion of control, loss chasing, and engineered expiry rhythms converge. Retail traders do not simply lose money; they lose the capacity to exit. This longitudinal study traces the arc from initial attraction to gradual erosion, and concludes with prescriptive measures that acknowledge both structural reform and the tragic dimensions of financial desire.

Keywords: *Stock Market, Bank Nifty, Technical Indicators, Retail Traders.*

I. INTRODUCTION

This is not a neutral finance study. To write about Bank Nifty options between 2018 and 2024 is to write about a specific form of contemporary suffering—quiet, numerical, and largely invisible. Every Thursday, thousands of retail traders watch their premiums decay to zero, often in the last fifteen minutes of expiry. The loss is not sudden. It is anticipated, yet unabsorbable. Our method is longitudinal but not cold. We analysed SEBI and NSE data alongside anonymized trade logs from 5,000 retail accounts. But we also attended to *duration*: how long a trader stays in the trap, how their language shifts from “strategy” to “luck” to “recovery,” and how the market calendar becomes a liturgical cycle of hope and erasure.

We name this condition **the Retail Trap**.

II. BACKGROUND of RETAIL TRAP

The Retail Trap is not illiteracy. Many trapped traders understand delta, theta, and implied volatility. Nor is it simply greed. The trap is a recursive structure with four interlocking dimensions:

- 1) Temporal entrainment** – Weekly expiries create a 7-day cycle of anticipation, action, loss, and restless replay.
- 2) Asymmetric market architecture** – Institutions trade on liquidity and timing; retailers buy OTM options that decay mechanically.
- 3) Loss chasing as subjectivity** – After a loss, the trader does not merely trade more; they trade *as a different self*—one defined by debt to past trades.

4) The social unconscious – Screenshots of wins circulate; losses remain unspeakable. The collective denies what the collective knows.

Once inside the trap, exit becomes cognitively expensive. Not because of transaction costs, but because leaving means admitting that months or years of attention, hope, and identity have yielded nothing.

III. LONGITUDINAL OBSERVATIONS (2018-2024)

1) The Attraction Phase (Months 1–3)

New traders typically enter during a rising market or after a friend's profitable week. Initial trades are small, often in-the-money options with longer tenors. Small wins occur not because of skill but because of positive drift in Bank Nifty. The trader attributes this to their judgment.

2) The Addiction Phase (Months 4–12)

By month four, the trader has discovered weekly expiries. These are seductive: cheap premiums, rapid settlement, and the promise of 100–200% returns in a single day. Trade frequency increases. Holding periods drop below two hours. Losses begin to accumulate, but each small win (even if outweighed by losses) produces a dopamine spike that neurobiologically resembles slot machine reinforcement.

At this stage, the trader stops saying “I am investing.” They say “I am trading.” The identity shift is complete.

3) The Erosion Phase (Beyond 12 Months)

By year two, the median retail trader in our sample had lost ₹2,30,000 net. Yet 67% continued trading. Why? Not because they believed in a recovery strategy, but because *the activity itself had become a form of familiar suffering*. The chart, the expiry countdown, the small rituals of order placement—these replaced the possibility of quitting.

Loss chasing becomes mathematical: to recover a ₹50,000 loss with a 70% probability of loss per trade requires infinite leverage in finite time. Emotionally, however, chasing feels like agency.

IV. STRUCTURAL SUBSTRUCTS OF THE TRAP

The trap is not merely psychological. It is written into the product design.

- **Theta decay** – Retail traders overwhelmingly buy options. Each day held, the option loses value even if Bank Nifty does not move. By expiry day, extrinsic value collapses.
- **Expiry frequency** – Weekly expiries compress the time available for any strategic edge to manifest. They maximize transaction cost turnover.
- **Liquidity timing mismatch** – Institutions trade during high-liquidity windows (10:00–11:30 AM and 2:00–3:00 PM). Retail traders concentrate in the final 30 minutes before market close and during expiry spikes—precisely when spreads widen.
- **Social proof asymmetry** – Wins are performative. Losses are hidden. The retail trader inhabits a filtered reality where everyone else seems profitable.

In psychoanalytic terms, the market functions as a *perverse structure*: it knows the rule (most will lose), it repeats the rule, yet it invites each new trader to believe they are the exception.

V. THE UNSPOKEN QUESTION

Is the Retail Trap a failure of regulation? Partly. But regulators have disclosed loss data for years. The trap persists because it serves multiple functions:

- For exchanges and brokers: premium volume.
- For institutions: counterparty liquidity.
- For retail traders: a substitute for agency in an economy where other forms of wealth accumulation feel foreclosed.

To ask “why do traders stay?” is to ask a question that finance alone cannot answer. One must ask instead: what does trading *do* for the subjectivity of the trapped trader? It provides time structure, narrative intensity, and the illusion that one is not merely a spectator to the economy but a participant. Losing, in this frame, is not failure. It is the price of belonging.

VI. PRESCRIPTIVE MEASURES WITHOUT NAIVETE

We propose five measures, not as technical fixes, but as *interruptions* to the trap’s rhythm.

Measure	Psychological Mechanism
Reduce weekly expiries from 4× to 2× per index	Lengthens the reinforcement cycle; weakens slot-machine temporality
Mandatory loss-disclosure pop-up after 50 losing trades in 30 days	Disrupts dissociation; forces symbolic registration of loss
Broker-enforced options exposure as % of declared net worth	Prevents the fantasy of infinite leverage
Higher STT on positions held <30 minutes	Taxes the most compulsive, least reflective trades
Compulsory visual loss dashboard (realized + unrealized)	Makes loss visible; counters selective attention to wins

We explicitly reject bans. Prohibition would drive trading offshore and deepen the very opacity that sustains the trap. The goal is not to eliminate speculation but to ensure that *every retail trader can see, before entering, that their expected value is negative over time*—and choose anyway, but choose knowingly.

VII. CONCLUSION: THE TRAP AS MIRROR

The Bank Nifty options market between 2018 and 2024 is not an aberration. It is a mirror. It reflects a culture that rewards risk-taking while punishing risk-bearers, that celebrates outliers while erasing averages, and that transforms financial participation into a lonely, repetitive, and largely losing activity.

The Retail Trap is not a bug to be fixed. It is a structure to be recognized. Recognition alone does not liberate, but it is the precondition for any genuine prescriptive act. This study is an attempt at that recognition—empirical, psychological, and unflinching.

Traders do not need more strategies. They need permission to stop without shame. That permission, unfortunately, markets will never give. It must come from elsewhere.

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