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DETERMINANTS OF INVESTORS DECISION ON THE NIGERIAN STOCK EXCHANGE- A CASE STUDY OF THE BANKING SECTOR

Idowu Akinyele[1]

[1]PhD Student,
Dept of Economics Accounding & Finance,
Jomo Kenyatta University of Agriculture and Technology,
Juja, Kenya

Dr. F. Memba[2]

[2]Dept of Bus. Admin.,
Jomo Kenyatta University of Agriculture and Technology,
Juja, Kenya

Dr. O. O. Oloko[3]

[3]Dean SOB,
Jomo Kenyatta University of Agriculture and Technology,
Juja, Kenya

ABSTRACT

Nigeria is one of the emerging economies in Africa. Others are South Africa, Egypt and Kenya. The Nigerian stock market has lived up to its bill in accumulation and redistribution of resources and wealth. It is placed 1st in Africa, Asinobi Onyewuchi (2004). From her, many notable organizations have sourced for fund. Among these are all the Nigerian Banks, promptly quoted and well recognized on the Nigerian stock Exchange. Banking sector is the most active, non volatile and reliable on the exchange, but within this sector many of the top ranking banking have woefully failed in the recent time. e.g Oceanic bank PLC and Intercontinental bank PLC. Even Union bank PLC has to be rescued by the Federal Government and some banks have to change their names, e.g. Afribank PLC to Mainstream bank PLC. The issue is that many of these banks had hither to been reckoned to be performing well among others on the stock exchange. Then why the sudden fall? Could be that something more than mere fundamental analysis (traditional finance method) is necessary for appraising the sector on investment decisions? A survey on performance of 8 of the banks was conducted (2010-2014). Analysis showed that financial information was not watertight, some investors do not even understand or use it, but based their investment decisions on; recognition of the institution (name/location), connection and loyalty (whom you know), personal / institutional connections and what my friend does (herding). Correlation of the sectorial GDP and that of the Real sector is also negative within the period. This therefore concludes that if the financial performance indicators of these banks and stock exchange indices (fundamental analysis) are something to go by then the GDP of the Real sector ought to be high or improved correspondingly.

KEYWORDS: *Banking sector,Stock market,Fundamental analysis,Performance, Herding, Investment-decision*

INTRODUCTION

Recently the Federal government of Nigeria through the Central Bank directed a recapitalization of all banks operating within the county. The intention was to make them more viable dynamic and alive to their traditional role of stimulating the economy. This made many of the operating banks to raise their share capital by either publicizing new IPO, capitalizing their reserves, merging with other banks or even adopt or acquire other smaller banks. The regulation opposes to known of these as long as a minimum target of N25 billion was reached at the end of the day before December 2006.

This also came not long after an earlier deregulation of the banking sector which brought about the influx of many foreign banks, licensing of many bank branches and products through the length and breadth of Nigeria. In fact banking‖ has been the song in the mouth of all and sundry in Nigeria in the last 10-25 years i.e. since the era of structural adjustment programme in 1989. The period also coincides with the adoption of technology in the sector and all these added to the popularity and prominence of the sector in the economy.

Popularity of the Banking sector in Nigeria could not be said to be due to mere propaganda or mere regulatory phenomena but banks were seen to be really fulfilling their role in national economy stimulation by:

- Mobilizing and redistribution of funds
- As a good monetary agent
- As agent of growth and development
- Government financial partner and adviser
- Job provider and community developer
- International financial broker and linkage

The above scenario contributed to enhancing the popularity and necessity of banking sector in the heart of government institutions and household sectors in Nigeria even individuals. Everybody just want a stake in the running or ownership of the banking industry that culminated in its prominence on the stock exchange.

In Nigeria, there is no private or government owned commercial banks. They are all quoted and listed on the main stock exchange as a public quoted company (plc). But while the initial banking reform deregulation of the 80's and 90's saw the proliferation of many banks when there were as many as 89 different banks, the recapitalization exercise of the 2006 have reduced the number to just 21, but "mega banks, however but with even more branches than before leading to availability of at least a branch of bank in all nooks and crannies of Nigeria- Bank buildings are not just prominent in various locations but becoming familiar household names.

The two cited incidences and occurrence of banking reforms and regulations or deregulation also brought about major activities on banking stock in the Nigerian stock exchange where the share of all quoted companies are launched and traded including that of Nigerian Banks both in the primary and secondary markets respectfully. Stockbrokers and investment advisers normally have hard and hectic time sorting out issues on banking share subscription, oversubscription and related issues such as refund on IPOs even on bonus issues. Also there are always big number of deals, market capitalization and value on trading on Banking stocks in the capital market, which apart from keeping the stock market and stockbrokers extremely busy but also keep them happy in terms of returns and earnings generated.

Banking sector and stocks are not only popular with people, firms and government but also in the stock exchange where the instruments are traded. The sector has never lack high level of availability and patronage on the stock exchange and this is also evident on its performance on the stock exchange floor with its robust performance indicators in terms of:

- Prices
- Number and volume of deals
- Value of deals/market capitalization
- Indices and rating

In the last 15-20 years Nigerian Banking sectors performance in the Nigerian Stock Exchange had been domineering. Even during economic recession and in the last global financial economic meltdown of 2008-2009.

STATEMENT OF THE PROBLEM

Noticeably, the Nigerian Banking Sector had been regarded as a performer on the Nigerian stock exchange by all economic indicators. Transaction, volume, value and index is very high; even share prices of the banking sector command respect and less volatile than any other sector from about 21 sectors, 305 companies and about 400 securities quoted on the stock exchange. Amidst these figures and performance indices however is a great concern. The banking sector that is so mightily performing on the stock exchange, Is it correspondingly affecting the economy positively? Why is the national GDP growth going down, why are the companies folding up? Why is the inflation rate and interest rate going up, and why is the exchange rate not stable?

Though all these are not the main problem of this study but formed the foundational fact of the issue; because if the banking sector is so popular and relevant among the populace and the stock exchange, there ought to be commensurate correlation among all the essential general macro -economic indicators and this appears not be so, then are the indices of bank stock performance on the stock exchange reliable? Does investment in banking stock reflect the true information analysis or fundamental techniques on the stock exchange, or are there some underlying investors sentiments? In other words, is the investment on, or performance of banking stock in the stock exchange rated on fundamental analysis or investors behavioral/attitude process?

This is the major concern of this work because even since the advent of global melt down the sector has been recovering and improving more than any other sector yet there is no good food on common man's table. Except this issue of what influences investment decision in the banking sector in Nigeria is properly sorted out and taken care of, Nigeria may be sitting on the time bomb or warming up for another round of economic calamity sooner or later.

STUDY OBJECTIVES

Mainly to determine whether the performance of banking stock in NSE is a true reflection of financial and stock exchange information and particularly:-

- To examine what determines the investor decision on banking sector in the stock exchange.
- Evaluate an insight to possibility of market anomalies or abnormal returns.

SIGNIFICANCE OF THE STUDY

Relying on wrong information or wrong indicators is always instrumental to wrong decision. Except we know what are the salient thing that cause good banking performance by all standard and yet no commensurate good general domestic economic improvement, then disaster is looming. Therefore there is need to study banking performance, economic performance and investors decision, examine the correlation and determine the causalities in the interest of the economy in general but more so for government and institutional policy makers. This would be essential for economic planning purposes and possible redirection and re-engineering of the market indicator strategies.

LITERATURE REVIEW

A recent survey of financial literature showed that the basic paradigm of asset pricing is in flux, this means fundamental analysis may not be as reliable as we earlier believed. The purely rational approach is being subsumed by a broader approach which is based on psychology of the investor (David Hirshleifer – 2001). Evidence have shown that there are biases and sentiments in investment decision. Even evidences now abound that confirm that rather than being totally rational, there are some irrationalities in the decision of most investors which is pertinent to stock perceived performance of a specific stock. (Jeffrey.2002). This will connote or imply departure form the popular efficient market theory. If people are trading on a particular stock without relying on financial or stock information and thus affecting the recognized performance of the stock it means a departure from the known trend and fundamental analysis. They may be regarded as uninformed, noise traders who follow events, sentiment or herding. – (Baberis, Shleifer and Vishny – 1998) and (Delong, Bradford, and (Delong, Bradford, Shleifer, summer and Waldmann – 1990)

Efficient Market Theory/Hypothesis is believed to be the backbone of modern/traditional financial theory, the term efficiency, integration, reflection and market information are coupled thus according to economists, it does not allow investors to earn above average returns without accepting above average returns without accepting above average risks – (Malkiel -2003). The implication of this is that there will be overwhelming news, information or communication at everybody's disposal to form opinion and decision on the market (Fama 1990) hence (Karz - 2012) concluded and agreed with Fama that an in active market that include many informed and intelligent investors securities will be appropriately priced and reflect all available information.

For price of security in Nigeria it seems there as a departure from world of reality to world of theory as capture by Shiller (2000) who stated that stock prices approximately describe random walks through times. The price changes are unpredictable since they occur only in response to genuinely new information which by the very fact that it is new, is unpredictable and also usually is not simultaneously available to everybody at the same time. This further cast down on efficiency of EMH and outmost reliability on the theory for investment decisions.

With all these the EMH is seemingly loosing prestige among scholars and financial market and the emergence of behavioral finance in the early 90s (Konstantinidis, Katarachwa, Borovas and Vousta). Far from being machine like and robotic or rational on decisions, investors form beliefs and attitude on the basis of their emotional involvement, happy or sad feelings, optimistic or pessimistic attitude, over-or under reaction, encourage or discourage them from investing processes and decisions.

Investors sentiment have been proved to have clearly discernible, important and regular effects on individual firms and on the stock market as a whole and more importantly stocks that are difficult to arbitrage or to value such as banking stock (because of confidentiality and technicalities) are most affected by sentiments – (Malcom and Wurgher – 2007).

In examining performance and behavior on stock market one need to differentiate between what drives market valuation level (e.g. Book/Market ratio) and what drives total returns to share holders (TRS). These are purely market fundamentals. They are indicators of companies level of long term of performance and growth which is a function of return on investment (ROCE) and market valuation respectively (Koller et al 2005). Okafor (1983), concluded that market valuation (stock) can be approached under three broad headings, Fundamental, Technical and Efficient market approaches.

According to Chioma Chukwuma Agu (2009), two major theories dominated the thinking of investors behavior and influence their decision. These are bandwagon theory and contranian hypothesis. While bandwagon is about herding i.e. no serious analysis just follow the lead market makers, which may often mislead rather than helping investors, contrarians believes that small investors are usually wrong, hence large and majority are always better decision makers and this tend to influence investors decision – majority Bilmeier, and Massa (2009) opined that even where professional fund managers are engaged, asset price can deviate from their intrinsic value and fundamentals and bubbles can exist.

Binswanger (1999) further argues that stock market prices do not accurately reflect the underlying fundamentals when speculative bubbles emerge in the market as a result of instability and anxiety over other macro economic factors, hence irrational investment decisions pervade the stock market. This irrationality is expected and actually goes on to adversely affect the real sector of the economy and this is dangerous. (Singh 1997).

RESEARCH METHODOLOGY

The study will concentrate on the determinant of investors' investment decision on the Nigerian stock exchange especially as it relates to the banking sector and its performance in the capital market and the economy generally. The study tries to explain or find out the relationship between banks performance in the stock exchange and real sector performance and a kind of causative analysis on the performance.

This become important in view of the observed downward trend in the real economic growth of the nation yet bubbles in the banking sector as displayed by indicators from the stock exchange, despite occasional shocks. One wonders the basis of this antagonizing order, if all were right with the stock market figures and if truly the investors were rational and rely on fundamental analysis and value of the market.

SOURCE OF DATA

The study will use primary and secondary data. The primary data will be sourced form the customers and shareholders of these banks, their stockbrokers, and investment advisers. For the secondary data, the Central Bank bulletin, Stock exchange daily official list, Fact books and Financial report of the banks will be used. These are all authentic, reliable public documents.

The study will be a survey design, information about knowledge of the market, exposure in the market, shareholding qualification, age, work experience, income level, place of birth, will be sought from the respondent through a questionnaire.

Data on share price, (market value and book value) earning, rating, profitability, dividend paid, capital base and GDP will be obtained from the published document.

These will provide the dependent and independent variables.

POPULATION OF STUDY AND SAMPLING TECHNIQUES

The population of study is the banking sector or Nigeria. There are 21 recapitalized banks and out of these eight will be used as samples. The sampling technique is purposive random sampling because the selected bank must have existed for more than 5 years either alone or through merger/acquisition, the period cover by the research – 2004 to 2008. They must have branches throughout the country – not localized and traded frequently on the stock exchange.

In all about 250 questionnaires will be administered whose content, face and construct validity would have been tested, considered adequate and reliable before administration.

The distribution pattern of the questionnaire per bank will be:-

Customers	Institutional Shareholder	Individual Shareholder	Stock Broker	Financial Investment Advisers
8	5	15	1	1

i. e. [8 x30] 240 respondents. Also 10 Officials of the stock exchange will be consulted to have a grand total of 250 respondents.

Because of the nature of the survey,subject area and people involved, highly busy and secretive the concentration area will be Lagos, the hub of commercial activities in Nigeria and only three weeks will be allowed for distribution and collections. Throughout this period 10 research assistants will be at hand at the stock exchange and selected bank branches for distribution, clarifications and assistance to fast track, full, good, complete, and timely response and collection of questioniare.

METHOD OF DATA ANALYSIS

Descriptive and Inferential Statistics will be used. Data will be collected for 5 years 2010 to 2014. Variables will be collected from the banks performance and stock market indices/ rating as earlier mentioned (dependent and independent). Times series analysis, using regression (OLS) will be used as model to determine the correlation.

The result will inform whether investment in banking sector is based purely on traditional finance – fundamental analysis or behavioral finance – sentiment and herding. This will help the policy makers' financial institution regulatory agents, even financial and investment advisers to re-strategize on given financial issues prime and pride of place in Nigeria economic management otherwise the future is bleak.

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