THE NIGERIAN STOCK EXCHANGE, UNIT TRUSTS AND THE POTENTIAL SMALL INVESTOR: WHY CAN'T THEY CONNECT?

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ABSTRACT

This study represents at first look at investor behavior in Nigeria. Nigerians for the most part have shunned the Nigerian Stock Market. Given the importance of a security market to real asset allocation, it is important to understand why the ultimate suppliers of capital have ignored the Nigerian government's efforts to attract them.

INTRODUCTION & BACKGROUND

The Nigerian Government created the Nigeria Stock Exchange (NSE) to play a significant role in funding the Nigerian economy. As the NSE developed, it was also viewed both as an economic recovery tool and as a vehicle for the redistribution of wealth. Over its nearly 40-year history, the NSE has grown from 19 to 268 security listings, and from a single trading source to six trading floors throughout Nigeria [2].

However, the NSE has never lived up to expectations. The total trading volume of the exchange is less than that of a single, medium-sized firm on the New York Stock Exchange. Of those listings traded, the majority are affiliates of large, multinationals rather than nationally owned businesses. As a result, the exchange seems to perform independent of national economic forces rather than serving as an indicator of potential economic change. In addition, while savings rates in the country may be considered moderate, the rate of domestic investment in the NSE is relatively low [6] [7]. In an attempt to lure investors to the NSE, unit trusts were introduced in 1991 [4]. These trusts are similar to mutual funds in the United States. Money from multiple subscribers is pooled and invested in the securities market. These too, have fallen below expectation, and are often undersubscribed [4].

Drawing on the work of Professors Lease, Lewellen and Schlarbaum [1], which produced the first detailed look at the individual investor participating in the U.S. Securities markets, this research provides the first attempt to understand the potential small investor in Nigeria. Specifically, we investigate, on average: 1) the individual Nigerian's investment goals and objectives and their current investment activities, 2) the average level of knowledge about corporate stock and unit trusts and the participation with these securities, and 3) the disconnect between the NSE and small investors relative to demographics and current and potential investment behavior and risk attitudes.

RESEARCH METHODOLOGY

After a review of the extant literature, a questionnaire was developed concerning investment behavior of small investors. These items were then adapted to address the specific sociological and investment environment in Nigeria. The instrument consisted of 39 items in four categories: goals and objectives for investment, actual shareholder activities in the Nigerian Stock Market, respondent level of understanding of unit trust , and demographic information. The instrument was pre-tested and distributed to 1500 university faculty and staff at seven universities throughout Nigeria. Data was collected through a written questionnaire. As English is the official language of Nigeria, no translation was necessary. Participants were given two weeks complete the questionnaires, which were returned in-person to the researchers. A total of 1,002 usable questionnaires were received, a 66.8% response rate. Data was analyzed using SPSS.

Consistent with the work of Lease et al. [1], the sample was divided into four distinct cohorts based on gender and marital status. In Nigerian culture, these variables can play a tremendous role in determining the amount of education one receives, if one works outside the home and for how long, and how income is earned and spent. It can therefore be surmised that these variables will also affect current and potential investment behavior, and knowledge acquisition related to possible investments.

RESULTS & DISCUSSION

First, we note a general level of risk aversion among respondents, and well as a desire to keep assets liquid for current use. Speculative investing is not a priority, and potential share increases, even high ones, are not viewed as a motive for investing. Respondents seem content to follow a “low risk/low return” strategy if it means having funds available for emergency or unexpected events. The data also confirms the reality of the buy-and-hold attitude of Nigerian investors as reported by Ottiti [5] and Nssien [3]. This reality has a circular and negatively reinforcing cycle on the market. Stocks and unit trusts are viewed as longer-term investment vehicles that are converted to cash only when there is a sudden need to do so. Thus markets become "thin" with little active trading and the resulting illiquidity results in securities becoming less attractive to investors who need to generate stable and substantial income.

Second, social roles and responsibilities do seem to drive some investment decisions. While nearly every cohort member listed a savings account as an investment tool, gender and marital status did seem to affect interest in other vehicles, particularly real estate and gold. Since unit trusts have not yet achieved status as viable contributions to bridewealth, they are ultimately disregarded as investment alternatives.

There is also a disconnect regarding information sources. A large amount of information about unit trusts and company shares are distributed through banks and brokers. These sources were consulted by the women of our sample more frequently than by men. This could be problematic in that women do not often have the resources for investment beyond savings. Thus, the NSE appears to be reaching out to those that cannot invest, and not communicating with more likely investors (married and single men) through meaningful channels.

Perhaps most distressingly, most of our sample is simply uneducated about the notion of unit trusts. Less than ½ of our cohort samples were familiar with the term, and only a small fraction of those felt they understood or could gather information about unit trusts. Furthermore, the current subscription rate of 6.4% of our sample is far below that promoted by the SEC. Given that our sample is relatively well-educated and “modern,” the subscription rate does seem to suggest true difficulties in reaching their intended audience.

If the NSE hopes to bring these investors into the fold, they must educate the population and bring their investment vehicles in line with the realities of the Nigerian small investor. Without liquid securities markets, real asset allocation becomes virtually impossible. This research suggests that while the Nigerian government has poured million into creating an operationally efficient securities market, they have ignored the central ingredient of the market -- the suppliers of capital. As such, the true potential of the NSE as a means of growing a developing nation will never be realized.

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