Attitude of Investors to Capital and Money Market Investments Before and After Financial Crisis:
Evidence from Nigeria

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ABSTRACT

In the second half of 2008, the world experienced financial and economic storm. Value of investments crashed and investors lost money to the extent of their exposure to financial markets. In the light of gradual global economic recovery from the effect of the financial crisis in recent times, the research comparatively studied the attitude of investors to investments before and after the financial melt-down in Nigeria. Secondary data sourced from the Nigerian Stock Exchange (NSE) for the period 1961 to 2011 were analysed using statistical procedures such as correlation, multivariable regression and t-test. The study found out that there was significant change in the attitude of investors before and after the financial crisis to investments, as investors switched funds from capital market securities in favour of money market instruments which guaranteed fixed interest income. Despite the fact that the capital market is gradually recovering; investors still demonstrate low confidence in the market. It was therefore recommended that the NSE should strive to regain and retain common investors' confidence in the primary market through improvement in their corporate performance.

Keywords: Attitude of Investors, Economic Recovery, Financial Behaviour, Financial Crisis, Financial Markets, Investments, Market Capitalization, Money Market Instruments, Nigerian Stock Exchange, Securities

INTRODUCTION

In the second half of 2008, the world experienced financial and economic storm and a serious infection consequently took hold of financial markets across the globe. Business priorities shifted from growth and leveraging up profits to issues of survival and preserving core assets and competencies until the good times return. Investors also lost money as the value of securities crashed, which as a result had the inherent potential of changing their perception about investments and overall financial behaviour.

Starting with the US sub-prime mortgage crisis, a serious infection took hold of financial markets across the globe: equity and real property value slumped; banks and other intermediaries turned to governments to ante up much-needed liquidity and take toxic debt off their hands, bonds and other debt markets effectively closed down and banks begun to turn off the credit tap. Business priorities have shifted from growth and leveraging up profits to issues of survival and preserving core assets and competencies until the good times return (Barbara & Jing, 2012; NAIFA, 2011).

The recent economic meltdown had a devastating impact on the world economy, especially on the financial system in most countries, whether developed, emerging market or developing countries. The effect of the financial crisis is still being felt all over the world, as government in different nations of the world continue to introduce policies to revamp the economy (Sanusi, 2010). In Nigeria, the stability of the financial system was seriously threatened, which prompted the intervention of the government regulatory agency for financial institutions-the central bank of Nigeria. The crisis which manifested itself globally in the form of liquidity and credit crunch, breakdown of confidence in the banking system, de-leveraging and banks inability to improve capital adequacy, weak consumer demand, and fall in global output, affected Nigeria through both the financial and real (trade, remittances and aid) channels. The undiversified nature of the Nigerian economy and the high dependence on exports of crude oil as well as foreign capital inflows compounded the impact of the external shock arising from the crisis (Sanusi, 2010).

Also, the financial crisis affected the performance of the Nigerian capital market. As evidenced by the wane in the All Share Index (ASI) – Nigeria's market index, market prices of securities crashed significantly. Investors lost confidence in capital market investments because the number and volume of deals reduced. A look at the world economy shows some evidences of gradual recovery.

The United States is still going through its worst employment recession since World War II, and Europe's GDP has not returned to pre-crisis levels, but global output has grown 15% since 2008, and world trade is up more than 12%. The gradual rebound is attributable to the well-timed response engineered in 2009 by the G-20. The recovery soon demonstrated that the global economy had more than one engine. This gave the US economy time to heal, and even made it possible for Europe to experience its own crisis without triggering a generalized downturn (Jean, 2013). According to projections by Homi Kharas and Geoffrey Gertz of the Brookings Institution, there now are 700 million more people with $10-100 per day to spend than there were in 2003. Moreover, what they call the global middle class is expected to grow by another 1.3 billion over the next ten years. So there is obvious potential for a major rebalancing toward consumption-led growth in the emerging and developing world.

In the light of gradual global economic recovery from the effect of the financial crisis in recent times, it is important to assess the attitude of investors to capital market instruments (such as equities, debentures, bonds, stocks and other long-term investment instruments) and money market investments after the global meltdown. It is against this background that the research intends to comparatively study and analyse the attitude of Nigerian investors to investments before and after the financial melt-down. The topic investigates if there are significant changes

in the attitude of investors as touching market trends and seasonality changes over the period of 1960 to 2011 in Nigeria.

To achieve the stated objectives, two research hypotheses were formulated and stated in their null form:

H_0^1: There is no significant change in the attitude of Nigerian investors to capital market investment pre and post financial crisis;

H_0^2: There is no significant change in the attitude of Nigerian investors to money market investment pre and post financial crisis.

LITERATURE OVERVIEW

The Capital and Money Markets

The capital market is the segment of the financial market in which financial instruments with long term maturity are traded. Securities traded in the capital market are shares issued by companies, unit trusts, derivatives, pooled investment products and bonds. The money market is the segment of the financial market where financial instruments with high liquidity and very short maturities are traded. Money market instruments, which are used for borrowing and lending in the short term, include negotiable certificates of deposit (CDs), bankers' acceptances, government treasury bills, commercial paper, municipal notes and repurchase agreements (repos). The money market is typically seen as a safe place to put money due to the highly liquid nature of the securities and short maturities, but there are risks in the market that any investor needs to be aware of, including the risk of default on securities such as commercial paper.

Empirical Researches on Capital and Money Markets

There are findings on the existence of significant interdependencies between the stock markets all around the world. This is based on effects caused by two leading stock markets and the return determination process in quite a few matured stock markets and emerging stock markets, as empirical results do not lend support to the view that stock markets function in isolation and independently. Tsouma (2007) however suggested that the origin of interdependence relationships should not be exclusively viewed in connection with the leading stock markets, but with emerging stock markets as well.

There are some basic features common to all stock markets globally-whether mature or emerging stock markets groups, such as stock return level dependence on own past terms (usually relating to stock return predictability), stock return volatility dependence on past return innovations and/or on own past terms, the risk-return relationship and volatility persistence. This is established by previously conducted researches in which statistics such as autocorrelation coefficients, variance ratios and autoregressive coefficients in the context of time-varying conditional volatility models indicated existence of these conditions (De Santis & Imrohoroglu, 1997; Mecagni & Sourial, 1999; Akgiray, 1989).

The National Association of Insurance and Financial Advisors (NAIFA, based in the United States of America) survey in 2011 revealed that investors have become more interested in products with risk-protection components in the wake of the economic recession. This particularly applied to over 80 per cent of investors close to retirement age. Investors in this group seek financial products that will protect their investment principal in the event of a down market. Fifty seven (57) per cent of the NAIFA surveyed members submitted that clients under the age of 40 are more interested in those types of products while a further seven (7) per cent opined that the crisis has had no impact on the investment choices of clients nearing retirement age, of which a further 28 per cent maintained it had not affected the choices of clients under age 40. Reason for increase in individuals investing in the stock market could be attributable to planning towards retirement, evidenced by self-managed portfolio, managed funds (mutual

funds/unit trust) and mandatory pension funds for an aging population. Investors are interested in investments which will at least maintain their wealth by way of principal-guarantee and it is money market investments that possess these features. In order words, the attitude that investors have is that keeping the principal sum of an investment is more important than increase in returns through capital gain in the value of security. This is a strong reason that explains the shift from capital market investments to money market investments (NAIFA, 2011).

As to expectations and confidence in the capital market, (Stiglitz & Weiss, 1981) have indicated that any bunch of new entrants into the equity market contains a number of frauds. Potential investors know this, but cannot identify the frauds. Ritter (1991) has indicated that IPOs in the long run are overpriced. Analysts growth forecasts are routinely over optimistic around new equity offerings, but the most over optimistic are those analysts employed by the lead underwriters of the offerings (Dechow, Hutton, Meulbroek & Sloan, 2001).

Gupta (1996) has indicated that from the angle of investor protection, the regulation of the new issue market is important for several reasons. The number of small investors in new issue market is massive. Most of new investors make their first entry into equity investments via the new issue market. Bloomfield, Libby and Nelson (1999) also submitted that less informed investors are over confident in investments. By giving more information to the professional investors, capital market operators will directly harm the welfare of the less informed investors and if the less informed investors are not informed, it becomes an informational disadvantage.

The Nigerian Stock Exchange

The Nigerian Stock Exchange was founded in 1960 as the Lagos Stock Exchange. It started operations in Lagos in 1961 with 19 securities listed for trading. In December 1977, it became known as the Nigerian Stock Exchange, with branches established in some of the major

commercial cities of the country. The NSE is regulated by the Securities and Exchange Commission, which has the mandate of surveillance over the exchange to forestall breaches of market rules and to deter and detect unfair manipulations and trading practices. Securities traded in the NSE include Industrial Loan Stocks; Bonds - made up of government bonds (Federal, State & Local) and Corporate Bonds; Equity or Ordinary Shares and; Exchange Trust Fund (ETF) which was introduced in 2011. The Exchange Trust Fund (ETF) is a form of investment instrument that provide numerous possibilities. It is a fund that tracks an index, but can be traded like an equity instrument. ETFs always bundle together the securities that are in an index. It holds assets such as stocks or bonds and trades at approximately the same price as the net asset value of its underlying assets over the course of the trading day. Investors can do just about anything with an ETF that they can do with a normal equity instrument.

The Nigerian Security market is divided into the first-tier securities market (FSM) and the second-tier securities market (SSM). The SSM operates in the same way as the first-tier market by providing a forum for the buying or selling of the shares of companies in the market but it has less stringent listing requirements than the FSM. Trading on the SSM is subject to the normal dealing rules of the Stock Exchange. Investors in the SSM are protected by The Nigerian Stock Exchange on the same terms as investors in listed securities. Recently, the NSE launched the alternative securities market (ASeM) to replace the SSM as specialised board to accommodate small and mid-sized companies with high growth potential seeking to access the capital market. This move was propelled by the failure of the SSM to attract small and medium enterprises (SMEs) because of stringent listing rules. Some features of the ASeM are the introduction of designated advisers to assist ASeM companies meet post-listing obligations, clearly defined brand identity for the board, support to ASeM companies through value added services and advocacy effort, introduction of alterna-

tive capital raising products and the creation of ASeM rule book. A company can list on the ASeM after an initial public offer (IPO- when a company offers shares to the public for the first time). Money paid by investors for the newly issued shares goes directly to the company to provide capital for future growth, or to refinance debt. An SME can also list by way of introduction- a company's shares are "introduced" to the market with a pre-agreed insider sale for public float; having complied with the Exchange's listing requirements.

Theoretical Framework

The theoretical framework on which this research is premised is the utility theory which states that the proper course of action is the one that maximizes utility, usually defined as maximizing happiness and reducing suffering. This theory proposed that consumers make decisions based on the expected outcomes of their decisions. In this model consumers were viewed as rational actors who were able to estimate the probabilistic outcomes of uncertain decisions and select the outcome which maximized their well-being. The utility theory also advocates that although it is impossible to measure the utility derived from a good or service, it is usually possible to rank the alternatives in their order of preference to the consumer. Since this choice is constrained by the price and the income of the consumer, the rational consumer will not spend money on an additional unit of good or service unless its marginal utility is at least equal to or greater than that of a unit of another good or service. Therefore, the price of a good or service is related to its marginal utility and the consumer will rank his or preferences accordingly.

METHODOLOGY

Secondary data from 1961 to 2011 were used for the analyses and were sourced from the Nigerian Stock Exchange (NSE). These data sets covering a 51-year period, therefore, provide a unique opportunity to study trends of investors' behaviour before and after the financial crisis. Collected data were subjected to statistical techniques such as correlation, multiple regression model and independent sample t-test to bring out relationships among the variables. In operationalizing study variables, the attitude of investors in the capital market was measured using the number of deals for a 51-year period of 1961 to 2011, as active trading in the NSE started in June 1961. The number of deal represents the buying and selling mandates of customers for government securities, industrial loan, ETF, bonds and equities, executed through the stockbrokers trading on the Nigerian stock Exchange. It captures the attitude of investors transacting in the capital market, in that the mandates originate from the capital market investors. The attitude of investors in the money market was measured using total savings and investment statistics in the money market for a 52-year period as well, from 1960 to 2011, made up of the aggregation of Savings and Time Deposit with commercial banks, Savings in National Provident fund, Savings in Federal Savings Bank, Savings in Federal Mortgage Bank, Time Deposits with Merchant banks, Premium Bonds, Savings Certificates & Savings Stamps, Life Insurance Funds and Savings Deposits in the then Peoples Bank & Community bank.

The model for the Capital market is specified below:

$$AICMI= f \{TNODC\}\} \tag{1}$$
$$TNODC = f \{TAMCS\} \tag{2}$$
$$TAMCS = f \{TACS, TACD, TACE\} \tag{3}$$

Decomposing Equations (2) and (3) yields the equation below:

$$TNODC = f \{TACS, TACD, TACE\} \tag{4}$$

Stating Equation (4) in the linear form finally yields:

$$TNODC=C_0+C_1 TACS+C_2 TACD+C_3 TACE+e \tag{5}$$

where:

- **AICMI:** Attitude of Investors to Capital Market Investment
- **TNODC:** Total Number of Deals in the Capital Market
- **TAMCS:** Total Annual Market Capitalization of the Nigerian Stock Exchange
- **TACS:** Total Annual Capitalization of Stocks/Securities
- **TACD:** Total Annual Capitalization of Debts/Bonds
- **TACE:** Total Annual Capitalization of Equities
- *e* is the error term

PRESENTATION AND ANALYSIS OF DATA

Correlation Analysis

We establish if there is a significant relationship between Number of Deals and Total Market Capitalization using correlation analysis before running the regression for the model: the result is presented in Table 1.

Table 1 contains the correlation analysis between number of deals and Total Market Capitalization of the Nigerian stock Exchange. The correlation co-efficient is .940 at 1% significance level, implying a strong positive relationship between the variables. In effect, the attitude of investors to Capital Market Investment is directly and substantially influenced by the performance; good performance of securities listed in the capital market correspondingly causes investors to transact (buy and sell) securities. The opposite is also true.

Regression Analysis

We used the decomposed Equation (5) to run the regression model (see Tables 2-4).

Model Fit

In analysing the model fitness, we examine Table 2, showing the ANOVA result for the regression model, which is significant at 1% since 0.0000 is less than 0.01. To establish the validity and corroborate the acceptability of this, we compare the standard error of the estimate (285,630.4232) with the mean value of the dependent variable

Table 1. Correlations of number of deals and total market capitalization

		Total Market Capitalization in the Capital Market
Number of deals	Pearson Correlation	.940**
	Sig. (2-tailed)	.000
	N	31

Source: Results obtained from data analysis using the gretl statistical software package

Table 2. ANOVA result for the regression model

ANOVAb					
Model	**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1 Regression	2.088E13	3	6.960E12	85.314	.000a
Residual	2.203E12	27	8.158E10		
Total	2.308E13	30			

a. Predictors: (Constant), Equity, Debt & Bonds, Stocks
b. Dependent Variable: Number of deals

Table 3. Regressor co-efficient

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	115193.487	61605.898		1.870	.072
	Stocks	579.094	249.147	.544	2.324	.028
	Debt & Bonds	-435.354	201.353	-.148	-2.162	.040
	Equity	144.867	76.019	.463	1.906	.067

a. Dependent Variable: Number of deals
Source: Results obtained from data analysis using the gretl statistical software package.

Table 4. Model summary statistics

Model Summary[b]						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Mean Number of Deals	Durbin-Watson
1	.951[a]	.905	.894	285630.4232	332835.090	2.254

a. Predictors: (Constant), Market Capitalization of Stocks, Debt & Bonds, Equity
b. Dependent Variable: Number of deals in the capital market
Source: Results obtained from data analysis using the gretl statistical software package

(332,835.090). The former is less than the latter, hence the model is preferred and fits. With a coefficient of determination (the R-square) of 0.905, the regressors (independent variables) explain 90.5% of the attitude of investors to capital market investments while 9.5% is left unaccounted for which is attributed to error term.

The regressors' co-efficients are all significant. Market Capitalization of Stocks and Debts are both significant at 5% while Equities capitalization is significant at less than 7%. If the 'Sig.' value is more than 10% (less than 90% confidence level), the co-efficient estimates would not have been reliable because they would have too much dispersion/variance. Since the 'Sig.' values for all the three regressors are less than 10%, the estimators are reliable.

Durbin Watson for Autocorrelation

In a positive serial correlation a positive error for one observation increases the chances of a positive error for another observation (Gupta, 1996). The presence of autocorrelation in the regression model was tested using the Durbin–Watson statistics. The observed Durbin-Watson value produced by the regression model (d) is 2.254. The critical values for k (number of regressor = 3), N (sample size=31) at 5% significance are:

Lower bound, $d_{L,\alpha}$
= 1.2292 and upper bound $d_{U,\alpha}$ = 1.6500

We infer that there is no statistical evidence that the error terms are positively auto-correlated since $d > d_{U,\alpha}$.

Test of Hypotheses

We then run t-test to test hypothesis 1.

To conduct the t-test, the periods were segmented into pre and post financial crisis using 31st December 2007 as the cut-off date for both capital and money markets. In other

words pre-financial crisis was the period up to 2007 while post financial crisis was from 2008.

Then carrying out T-test using number of deals as the parameter to assess if there is significant change in the attitude of investors pre and post melt down will generate Tables 5 and 6.

Table 5 captures the t-test result for the first hypothesis. Considering that 'Sig' of 0.29 <0.05, we reject the null hypothesis and accept the alternative H_1 that there is significant change in the attitude of Nigerian investors to capital market investment pre and post financial crisis.

We also carry out T-test for hypothesis 2 as shown in Table 7 and 8.

Table 7 contains the t-test result for the second hypothesis. Since 'Sig' of 0.02 <0.05, we reject the null hypothesis and accept the alternative H_1 that there is significant change in the attitude of Nigerian investors to money market investment pre and post financial crisis.

DISCUSSION OF FINDINGS

The acceptance of the two alternative hypotheses in respect of significant changes in the attitude of Nigerian investors to capital and money market investments pre and post financial crisis is corroborative. The volume, value of deals, market capitalization and the All Share Index (ASI) of the Nigerian stock Exchange all significantly nosedived from year 2008. For instance, the aggregate number of deals declined by 51% from 3,535,631 (in 2008) to 1,739,365 (in 2009). Besides, Total Annual Market Capitalization fell from N13, 294.6 billion (in 2007) to N9, 563.0 billion (in 2008) representing 28% decrease. In other words, the market was bearish, representing a downward market trend. This supports the acceptance of the alternative hypothesis that there is there is

Table 5. T-test group statistics for hypothesis 1

Group Statistics for Capital Market					
	Pre and Post Financial Crisis Period	N	Mean	Std. Deviation	Std. Error Mean
Number of deals	Up to 2007	47	181673.374	467074.7777	68129.8585
	After 2007	4	2108985.250	994760.6528	497380.3264

Source: Results obtained from data analysis using the gretl statistical software package

Table 6. T-test result for hypothesis 1 (attitude to capital market investment)

	Levene's Test for Equality of Variances		T-Test for Equality of Means				
	F-Stat	Sig.	T-Stat	df	Sig. (2-Tailed)	Mean Difference	Std. Error Difference
Equal variances assumed	4.722	.035	-7.183	49	.000	-1.9273E6	268315.5383
Equal variances not assumed			-3.839	3.114	.029	-1.9273E6	502024.7670

Source: Results obtained from data analysis using the gretl statistical software package.

Table 7. T-test group statistics for hypothesis 2 (money market savings and investment)

Group Statistics for Money market investment					
	Pre and Post Financial Crisis Period	N	Mean	Std. Deviation	Std. Error Mean
Money Market Savings & Investments	Up to 2007	48	209046.0861	5.03743E5	72709.02030
	After 2007	4	5.5920E6	1.03541E6	5.17707E5

Source: Results obtained from data analysis using the gretl statistical software package

Table 8. T-test result for hypothesis 2 (attitude to money market investment)

	Levene's Test for Equality of Variances		T-Test for Equality of Means				
	F	Sig.	t	df	Sig. (2 Tailed)	Mean Difference	Std. Error Difference
Equal variances assumed	4.103	.048	-18.795	50	.000	-5.38292E6	2.86398E5
Equal variances not assumed			-10.297	3.119	.002	-5.38292E6	5.22788E5

Source: Results obtained from data analysis using the gretl statistical software package

a significant change in the attitude of Nigerian investors to capital market investments.

Although the capital market is gradually coming up, investment in the NSE has still not significantly improved because the confidence of investors in the capital market is yet to be restored. For example, the number of deals increased slightly by 10.7% from 1,739,365 in 2009 to 1,925,478 in 2010. Also, the total annual market capitalization witnessed a slight rise of 41% from N7, 030.8 billion (in 2009) to N9, 918.2 billion (in 2010) only to decline from N9, 918.2 billion (in 2010) to N9, 672.6 billion (in 2011) by almost 3%, an indication of loss of investors' confidence. Most investors in Nigeria capital market have not shifted their attitude by resuming purchasing stocks despite that the world economy is gradually recovering.

On the other hand, savings and investment in the money market such as savings in financial institutions (Commercial banks, Merchant Banks, Community Banks, Insurance companies, etc.) increased significantly. This also sup-

ports the validity of the alternative hypothesis acceptance that there is significant change in the attitude of Nigerian investors to money market investments pre and post financial crisis. To illustrate, there was a 53% remarkable increase in aggregate savings between 2007 (N2, 693,554 million) and 2008 (N 4,118,173 million) unlike the previous years where the average growth rate in money market investment increased steadily. The inference deducible from the foregoing is that when the value of financial instruments crashed during the financial meltdown of 2008, investors favoured money market investment by moving their money from capital market to the money market since the values of their investment was crashing in the face of the global financial meltdown.

The research findings agrees with the survey results of The National Association of Insurance and Financial Advisors (NAIFA) that investors seek financial products that will protect their investment principal in the event of a down market, which is offered by money

market investments. Our result also corroborates the work of Barbara and Jing (2012) where empirical research conducted in the United States showed that there was significant increase in financial behavioural habits such as budgeting, spending and saving, after the recent global financial crisis, among 10,661 households surveyed.

Our results agree substantially with research findings by Bricker et al. (2011), the American Fourth Annual Saving Assessment (2011), Taylor et al. (2010), and O'Neill (2003) that following the financial crisis in 2008, there was significant increase in investors' desire for less risky and high precautionary savings.

CONCLUSION

The research has attempted to investigate the attitude of investors to capital and money market investment before and after the financial crisis that occurred in the year 2008 using evidences from Nigeria. It was observed that there are significant changes in the financial attitude of investors, pre- and post- global financial crisis. Investors shifted from investing in the capital market where the values of their securities were crashing, to investment in the money market that guaranteed returns in the short run. The financial crisis has caused investors to be more risk-conscious and adopt a risk-based approach to constructing their portfolios. Despite that the capital market is gradually recovering; investors demonstrate low confidence in the market, as activities in the market still remains low. Retaining common investors' confidence in primary markets is important; with improvement in global capital markets, investors' confidence is expected to gradually set in.

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