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Research Article

Account and Financial Management Journal ISSN: 2456-3374

Evaluation of the Effect of Share Pricing and Investors Decision in the Nigerian Capital Market (1995 – 2014)

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ARTICLE INFO

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ABSTRACT

This study empirically appraised the effect of share pricing on investors' decision in Nigeria's Capital Market. Secondary data was collected from the Central Bank of Nigeria spanning for the period 2006 to 2015. The work utilized Dividend Yield, Market Capitalization, Stock Turnover, and Average Share Price as proxies for Share Pricing; and investor' decision is proxied by All Share Index. In order to achieve the objectives of the study, which include an investigation of the effect of Dividend Yield on All share index ascertainment of relationship between Market capitalization and All Share Index, etc, descriptive and inferential statistical tools among which are Means, Median, Standard Deviation, Ordinary Least Square, and ANOVA, were employed to analyze relevant data. Empirical results show that there exists a: positive and insignificant level of impact of Dividend Yield on All Share Index, negative and insignificant impact of Market Capitalization on All Share Index, negative and insignificant impact of Turnover on all Share Index and positive and insignificant impact of Average Share Prices on All Share Index. The major inference of this research is that investors deploy subjective means in analysis and/or the market is highly speculative and there is a weak level of efficiency in the market. Consequently, it is recommended among others that market regulatory authorities like the Securities and Exchange Commission (SEC) and Nigeria Stock Exchange (NSE) should ensure transparency to instill confidence in market information and provide timely information for greater market efficiency, market participants and investors should be trained on analytics to drastically reduce reliance on subjective analysis in decision making.

INTRODUCTION

Investors all over the world are interested in the capital market for motives of profitability and capital appreciation. Possible profit from investment depends on the expected market price. Consequent upon the global economic meltdown in 2008, investors are becoming increasingly cautious about putting their wealth in the capital market (Oladipupo 2009), thereby undermining the capacity of the capital market in its core function of capital mobilization and allocation. The performance of this function include guidance

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in the form of right pricing to ensure that resources are properly allocated and institutions and individuals can partake in the ownership of businesses.

The capital market is a market that is seen as an indicator of a country's economic strength and development. When share prices are rising, there is every tendency that there will be increase in business investment and when share prices are decreasing there is every tendency that there will be decrease in investment in security and share prices, which will have effect on the wealth of households and their consumption. It is therefore important to ensure appropriate pricing of shares in the capital market (secondary market and primary market). The incidence of inappropriate pricing of securities has adversely affected Nigeria capital market. In 2008, there was a sharp fall in share prices in Nigeria.

According to Nwachukwu (2012) the crash of the Nigerian Capital Market may not be completely alienated from the effect of the Global Financial Crisis that started with the US bubble, its aftermath has nevertheless left dents and unanswered question on the Nigerian investment environment. According to Oladipupo (2010) the investment from the market by Foreign Investors who are controlling about fifteen percent of the total investment in the stock market is majorly reported as the cause of the crash. According to him, the investment depressed stock prices and forced the local investors, to also do away with their shares as they were panicking because they have never witnessed a market meltdown. This attitude of the local investors also caused the market capitalization to drop even further. As the price continue to fall many investors in the market suffered losses and as a result the once bubbling market now suffers low patronage as investors now seek alternative investment opportunity (Oladipupo, 2010).

The capital market is a market that is seen as an indicator of a country's economic strength and development. When share prices are rising, there is every tendency that there will be increase in business investment and when share prices are decreasing there is every tendency at there will be decrease in investment in security and share prices, which will have effect on the wealth of households and their consumption, an indication upheaval in business decisions, or vice sersa when price plummet. It is against this background that this study seeks to empirically evaluate the effect of share pricing on investors decision in the Nigerian Capital Market.

Many authors have researched on the factors that affect share pricing but not much has been done on evaluating the effect of share pricing on investors decision in the capital market. The willingness and unwillingness of investors to put their wealth in the capital market could be influenced by the capital market's performance.

REVIEW OF (EMPIRICAL) LITERATURE

Many scholars and experts in the field of finance have studied the effect of share pricing on investors decision making. Henddrikseen and Van-Breda (1992) asserted that the main reason for which accounting information is generated is to facilitate decision making. However, for financial reporting to be effective among other requirements, t must be relevant, complete and reliable. Accounting information should therefore give a decision maker the capacity to predict future actions. Stock price movement and accounting information variables (such as earnings, dividend return on capital employed etc) have a subject of research (Balari and Ozkan 2009; B.O. 2009; Fillip and Raffournier, 2010). Glezakos, Mybnakis and Kafouros (2012) examined the impact of accounting information on stock prices in Athens. They found that earnings and share price has a positive relationship and investors decision to invest is a function of earrings they expect to get from the investment Researchers like Collins, Maydew and Weisa (1997) examine the relationship between book value per share and earning per share. In their

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study they discovered that earnings and book value has a relationship and changes in securities prices affect investor's decision positively. Other authorities in this area like Barth, Beaver and Landsman 1998 and Keener (2011) also have this conclusion on their studies. But Bargstahler and Dither (1997) studies suggested that the function which describes the relationship between stock and prices and earnings and book values is convex. Other studies from different authorities like Airschey, et al. (2001), Jacobson (2001), Graham, et al, (2002), have identified a variety of re1ationshp between accounting information and stock prices. A number of researchers have proved that relationship between stock price and earning is different for different industries (Hughes, 2000; Boone, 2002; Riley, et al., 2003), for different countries (Fillip & Rat Raffsurmier, 2010; Alsaman, 2003; Martinez, 2003; Habib, 2004; Goodwin & Ahmed 2006; Ibrahim, et al., 2009).

There are some scholars that believed that certain psychological factors are found to affect investors decision making process, one of such is over confidence. Kutepaksi 2010) submits that psychological research demonstrates that when people encounter a difficult problem involving uncertainty, they tend to be so overconfident that they make more errors if it is compared to when they confront an easier problem. According to Alpha St Raiffa (1982) empirical re earth reveals that when investors show over confident behaviour, they tend to send prediction value which is relatively high and so move away from its fundamental value. Kufepakasi (2010) and Odean (1995) in field of behavioral finance tend to show that deviations from the fair price are rather common and sometimes quite large. Investors believe that the true asset value is high when they observe others buying (Zemsky, 1998; Cham & Icehoe, 2004; Cipriani & Guarino, 2008) and the opposite when the reverse is the case. This was the case in the Nigeria Stock Exchange in the past when 1ere was massive influx of investors into the market.

METHODOLOGY

The scope of this study is the Nigeria Capital Market, Securities and Exchange Commission and the Central Bank of Nigeria. Consequently, the study consists of 180 listed equities in the Nigeria Stock Exchange (NSE, 2016).

It is hardly possible to include all members of a given population in the investigation. This is because the population may be too large to be reached at a particular time Wokocha (2015). To be able to embark on this study the researcher limited the size to span 20 years (1995 — 2014). The independent variable to consists of Dividend Yield Ratio Market Capitalization Ratio, Stock Turnover and Average Share; while the dependent variable is proxied by All Share Index. The sample size consists of the 180 equities listed on the Nigeria Stock Exchange.

Subsequently, descriptive statistics and the ordinary least square (OLS) regression were adopted as analytical tools.. Descriptive statistics is necessary as it transform data into format that is easier to withstand and interprete (Ihenatu, 2015). Regression on its own does not just indicate the direction of a relationship but the magnitude and degree of such relationship.

Consequently, the multiple linear regression model is developed to indicate that the exogenous variable [(All Shares index) which is an indicator of investors decision in this context] is dependent on the endogenous variable [(share prices) which is proxied by Dividend Yield, Market Capitalization Rate, stock turnover, and Average Share Price.

Therefore, ASIR = f(DYR, MC, STOR., ASPR)

Mathematically: ASIR DY + MCR + STO + ASP

The models above are deterministic thus prone to frailties, hence to expunge such frailties that may render the models invalid, they are translated to an econometric model as thus:

$ASLR = + \beta_0 + \beta_1 DY + \beta_2 MCR + \beta_3 STO + \beta_4 ASP + \varepsilon_1$

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Where:

ASIR = All Shares Index (Rates)
DY = Dividend Yield (Rates)
MCR = Market Capitalization (Rates)
STO = Stock Turnover (Rates)
ASP = Average Share Price (Rates)
β_0 = Constant
β_1— β_4— = Parameters/Coefficients of Variables
ε_1 = Error Term

Presentation of Data

The following are the variables for the analysis:

Dividend Yield, Market Capitalization, Stock Turnover, Average Share Price, and All Share Index (in Rates) (1995- 2014).

YEAR	DYR (%)	MCR (%)	STOR (%)	ASPR (%)	ASIR (%)
1995	10.4	5.871534	1.04	2.47	99.4
1996	7.0	5.634528	1.57	6.12	56.1
1997	6.5	5.474156	1.68	6.32	28.3
1998	8.4	7.375443	1.49	2.20	-22.0
1999	7.9	9.326713	1.02	2.86	-11.7
2000	9.6	9.326713	2.44	3.69	27.3
2001	8.7	10.662291	3.66	23.23	52.0
2002	6.6	9.692697	5.17	2.81	14.2
2003	7.8	8.452684	4.69	39.33	33.8
2004	7.5	9.362464	5.96	25.48	59.0
2005	7.3	14.01033	8.71	8.41	-7.5
2006	10.8	11.03816	7.77	37.45	20.9
2007	5.3	16.02445	8.83	19.99	76.4
2008	4.4	18.4903.	11.73	15.30	3.4
2009	6.8	19.90085	9.07	16.98	-54.2
2010	5.8	27.5847.	9.18	5.56	6.8
2011	10.5	64.354972	15.80	41.53	-5.6
2012	9.9	39.35162	17.56	36.30	0.17
2013	9.5	34.21763	9.75	3.48	54.1
2014	10.5	22.79004	10.21	49.75	8.8

Source: CBN Statistical Bulletin (2015)

Analysis of Data

Descriptive Statistics

To evaluate the underlying trend amid employed data, the study engages the Descriptive statistics as a form of Univariate Analysis by calculating the mean, standard deviation, skewness, etc.

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Descriptive Statistics Output

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
DY	20	4.40	10.80	8.0600	1.88663	-.148	.512	-.933	.992
MCR	20	5.47	64.35	17.4471	14.61320	2.067	.512	4.789	.992
TOR	20	1.02	17.56	6.8665	4.84434	.603	.512	-.199	.992
ASPR	20	2.20	49.75	17.4630	15.74530	.744	.512	-.870	.992
ASIR	20	-54.20	99.40	21.9835	36.57676	.170	.512	.105	.992
Valid N (listwise)	20								

Source: SPSS Version 20

Judging by the above output in Table 2, it can be observed that among the explanatory variables, Average Share Price (ASPR) possesses the highest mean of 17.46%, followed by Market Capitalization (MCR) which has an average of 17.45%, which is a relatively large gap in comparison with Dividend Yield (DYR) which hosts an annual average of 8.06% annual appreciation, while Stock Turnover (STOR) shows the least rate of appreciation as it changes annually by 6.87%.The output also indicate that the All Shares Index (ASIR) has an annual average increase of 21.98%. Standard deviation portrays the riskiness or volatility that prevails, therefore in this context, it is obvious that the Average Share Price (ASPR) conveys the greatest level of volatility with 15.75%. The next in riskiness is Market Capitalization (MCR) which is volatile to the extent of 14.6%, on the other hand, Dividend Yield (DYR) shows the least level of risk, as its riskiness is 1.88%. The implication of this is that the explanatory variables can be increased or reduced to the extent of their respective standard deviation, thus it is the portrayal of riskiness. Also, the All Shares Index can be reduced or increased by 36.57% as that represents its standard deviation. The skewness can simply be explained to show the movement of variables whether they are more or less than the mean: they show the bearing of the employed variables. The output indicate that Dividend Yield (DY) is negatively skewed showing the downward or dwindling movement of these series of data while Market Capitalization (MCR), Stock Turnover (STOR) and Average Share Price (ASPR) are positively skewed, the Kurtosis showing the level of sharpness or flatness of employed data, all variables were moderately flat as they possess very low Kurtosis coefficient which shows that the progression of all the employed variables but Market Capitalization (MCR) have been gradual over the study period. The results show that the Market Capitalization had a comparatively very sharp movement as its movement was relatively steeper than that of the other variables.

Multiple Regression (Ordinary Least Square)

The multiple linear regression was carried out as it is the best linear unbiased regression estimator. The analysis was carried out upon transformation of data from their natural forms to rates in order to establish uniformity. However, it is expedient that the model be scrutinized to highlight its validity.

Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.921[a]	.848	.892	38.51962	1.638

a. Predictors: (Constant), ASPR, DY, MCR, TOR

b. Dependent Variable: ASIR

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The R-squared (R^2) coefficient of correlation, showing an output of 0.848, signifies that the predictors account for approximately 848 percent (%) variation in the criterion variable while 15.2% are captured by other variables not in the model (The white noises, stochastic term, error term or unobserved variables). This implies that about 90% of the variables that influence investors' decision in Nigeria's stock market are accommodated in the model. The Durbin Watson measures the existence of serial autocorrelation. Usually, the farther the Durbin Watson is from 2 indicates the level of serial correlation, with a value which is less than 1 considered unacceptable. Given the output of 1.638 the model and indeed data is devoid of autocorrelation, judging by the rule of thumb. Ordinary Least Square Output

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	18.365	47.116		.390	.702	-82.060	118.790
DY	2.498	5.957	.129	.419	.681	-10.200	15.195
MCR	-.347	1.286	-.139	-.270	.791	-3.089	2.395
TOR	-1.886	4.305	-.250	-.438	.668	-11.062	7.290
ASPR	.143	.806	.061	.177	.862	-1.576	1.862

a. Dependent Variable: ASIR

From the output above, it can be observed that the coefficient of the constant (C) is 18.365, which indicates that if all other variables are kept at a constant or zero, the criterion variable Al! Shares Price Index (ASL) will increase by approximately 18365 units. The implication is that regardless of the price movements, about 18% of investors will participate in the market.

The variable coefficient shows that Dividend Yield (DY) has a positive coefficient of 2.498. This indicates that Dividend Yield has a positive relationship with All Share index and by implication; a 1 unit increase in Dividend Yield will elicit a 2.498 units increase in market participation. On the other hand, Market Capitalization (MCR) and Turnover (TOR) are negatively related to All Share Index (ASIR) based on the coefficients -0.347 and -1.886 implying that both are negatively related to Al) Share Index respectively, so affect investors decisions adversely; while the Average Share Price (ASPR) of 0.143, has a positive coefficient, indicating that it is positively related to investors decisions.

The t-statistic probability level shows that none of the predictor variables possesses a significant influence on All Share Index as none of the variables as a probability that is below or equal to the significant level of 0.05.

Hypotheses Testing

The t-statistics is used to test the respective hypotheses stated in the null and alternate form as follows:

Hypothesis One

$H0_1$: There is no significant relationship between Dividend Yield and All Shares Index.

H_{A1}: There is a significant relationship between Dividend Yield and All Shares Index.

Utilizing the multiple linear regression output above, it can be seen that the Significance level (as calculated) for the t-statistic (of 0.419) for Dividend Yield (DY) is a probability level of 0.681, which is higher than the a priori 0.05 significance level, implying that the null hypothesis is not ejected. Therefore, we accept the null hypothesis while its alternate is rejected;

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hence, there is a positive, but insignificant relationship between Dividend Yield and All Share Index.

Hypothesis Two

H_{02}: There is no significant relationship between market capitalization and All Shares Index.

H_{A2}: There is a significant relationship between market capitalization and All Shares Index.

Utilizing the multiple linear regression output above, it can be seen that the Significance level (as calculated) for the t-statistic (of -0.270) for Market Capitalization (MC) is a probability level of 0.791, which is higher than the a priori 0.05 significance level, implying that the null hypothesis is not rejected. Therefore, we accept the null hypothesis while its alternate is rejected; hence, there is a negative and insignificant relationship between Market Capitalization and All Share Index.

Hypothesis Three

H_{03}: There is no significant relationship between Turnover Share and All Shares Index.

H_{A3}: There is a significant relationship between Turnover and All Shares Index.

Utilizing the multiple linear regression output above, it can be seen that the Significance level (as calculated) for the t-statistic (of -0.438) for Turnover (TO) is a probability level of 0.668, which is higher than the a priori 0.05 significance level, implying that the null hypothesis is not rejected. Therefore, we accept the null hypothesis while its alternate is rejected; hence, there is a negative and insignificant relationship between Turnover and All Share Index.

Hypothesis Four

H_{04}: There is no significant relationship between Average Share Price Ratio and All Shares Index.

H_{A4}: There is a significant relationship between Average Share Price Ratio and All Shares Index.

Utilizing the multiple linear regression output above, it can be seen that the Significance level (as calculated) for the t-statistic (of 0.177) for Average Share Price (ASP) is a probability level of 082, which is higher than the a priori 0.05 significance level, implying that the null hypothesis is not rejected. Therefore, we accept the null hypothesis while its alternate is rejected; hence, there is a positive, but insignificant relationship between Average Share Price and All Share Index.

ANOVA Table

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3162.914	4	790.729	.533	.714[b]
	Residual	22256.419	15	1483.761		
	Total	25419.333	19			

a. Dependent Variable: ASIR

b. Predictors: (Constant), ASPR, DY, MCR, TOR

Finally, the F-statistics from the ANOVA above which shows the overall significance of model stands at an output of 0.533 coupled with a probability of 0.714, which is very low and shows an overall insignificance between the endogenous and exogenous variables. This implies that overall

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Share pricing does not significantly affect investors' decisions in Nigeria's Capital Market.

Discussion of Findings

From the evaluation above, it can be seen that Dividend Yield (DY) displays a positive but insignificant influence on Investors' decision as proxied by All Share index (ASI); precisely, a 1 unit increase in Dividend Yield (DY) culminates in a 2.493 units increase in investment in the stock market. This is similar to the findings of Glezakos, et al (2012) and Collins, et al (2007) who submit that a positive relationship exists between earnings and investors' decisions. The Market Capitalization portrays a negative and insignificant influence on Investors' decisions as a unit change in Market Capitalization results in a 3.47 unit reduction in aggregate decision to invest in the market. Also, Turnover shows a negative and statistically insignificant relationship with All Share Index, which reflects that a unit increase in it results in a 1.886 units decrease in All Share Index and ultimately decision to invest in the market. This contrasts with the position of Barth, et al (1998) and Keener (2011) who proved that the relationship between assets prices and investors decision is positive. It is further obvious that there is a positive and insignificant relationship between Average Share Price and All Share Index; precisely, a unit appreciation on average share price will culminate in a 0.143 appreciation of market participation as investors will respond positively towards the market to that extent.

More so, the probability of the F-statistic shows 0.7 14, which is higher than the 0.05 significant threshold, indicating an insignificant relationship between share pricing and investors' decision in Nigeria's capital market. This is indicative that investors in Nigeria Stock exchange do not substantially depend on share prices to decide on investment. This suggest one or both of the facts that investors are attitudinally risk takers or resort to behavioural finance decisions, thus decisions are based on subjective rather than objective factors. For instance, Kutepaksi (2010) opine that when faced with uncertainty, people tend to be overconfident.

CONCLUSION

Several scholars have investigated share pricing vis-a-vis a myriad of variables with quite a plethora of findings. This study employed the very constituents of share pricing to unveil astonishing findings from which it can be concluded that investor's decision in Nigeria capital market is not predicated on quantitative, but qualitative and subjective analytics. This negates anecdotal evidence but can be explained by the naturally "never say-die" and risky attitude of Nigerians. Given the negative coefficient of Market Capitalization Rate (MCR) and Stock Turnover Rate (STOR), it can be inferred that investors do not solely depend on the prices in the market to make decisions, in fact when prices increases they tend to sell rather than invest; a further consolidation of the risk taking attitude of investors. Also, distrust in market reports especially when market information is shrouded in secrecy and the market perceived to have weak efficiency could instigate the negative effect of elements like market capitalization and stock turnover on investors' decision.

RECOMMENDATIONS

Sequel to the discovered relationships among employed variables, the study proffers the following recommendations:

(i) First, the financial market regulatory authorities like the Securities and Exchange Commission (SEC) and Nigeria Stock Exchange (NSE) should ensure transparency to instill confidence in market information and provide timely information for greater market efficiency.

(ii) Second, market participants and investors should be trained on analytics to drastically

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reduce reliance on subjective analysis in decision making.

(iii) Third, that investors do not rely on prices alone to make decisions imply that the wider policy environment is critical in decision making, therefore, the business environment should be stabilized by relevant authorities.

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