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Investment Objectives and Strategies of Individual Investors in the Nigerian Capital Market

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Abstract
This paper analyzes the investment objectives of individual investors in Nigeria and the strategies which they use to achieve these objectives. The study relied exclusively on primary data obtained from a structured questionnaire. Among the various objectives pursued by them, the primary investment objective of retail investors in the Nigerian capital market is for security. This is followed by long-term price increase and short-term price increase, indicating that the average Nigerian investor is more likely to be a long-term investor even as he exhibits speculative tendencies from time to time. The study also reveals that investors prefer to invest in the shares of Deposit Money Banks followed by shares of companies in Food/Beverages/Tobacco, Petroleum marketing, Breweries and Building materials which apart from Petroleum marketing are in the manufacturing sector. Investors are more likely to obtain their shares from the primary market and more than a third of retail investors do not patronize the secondary market. This has given rise to the buy-hold attitude seen among Nigerian investors and this absence from secondary market activities has resulted in the relative low liquidity of the Nigerian stock market. For arriving at a decision on which stocks to invest in, investors rely on self-analysis of financial statements and occasionally on the recommendations of financial advisors and analysts. These findings will serve as a guide for capital market practitioners in designing appropriate portfolios for investors based on their preferences.
Keywords: Investment objectives, Investment strategies, Individual investors, Nigerian capital market

1. Introduction

Investment has been broadly defined as the acquisition of an asset with the aim of receiving a return. It can also be viewed as the sacrifice of current money or other resources for future benefits. In the context of financial markets, it is the commitment of a person's funds to derive income in the form of interest, dividend, premium, pension, benefits or appreciation in the value of their capital. Thus when an individual purchases shares, government bonds, debentures, insurance policies and money market instruments like treasury bills; they are all investments. A number of motives for investment have been identified, but the basic motive is profit/ return.

An investor may be defined simply as a person or institution, having surplus funds, parts of which are invested in securities for an expected return – dividend, interest and capital appreciation (SEC, n. d.). Individual investors in the capital market include mainly household investors. They purchase relatively small amounts of shares for their portfolios and are also referred to as small or retail investors in contrast to the institutional investors who are involved in wholesale investment. Individual investors own financial assets directly in their name or indirectly in the name of funds, trusts or corporations. Investment in the capital market has been utilized by a vast number of investors as a way of saving for retirement or for the education of their children. A number of investment options where investors can channel their savings exist, but the choice differs from investor to investor and would depend on not only the financial literacy of investors, but also on their investment objectives and philosophy. Irrespective of the option chosen, each investment vehicle can be categorized according to three fundamental characteristics. These are income, safety and growth – which also correspond to types of investment objectives.

The investment objectives of an investor refer to what the investor hopes to achieve with his or her investment. Objectives define the purpose of investing in the first place. Thus, an investor may invest for future financial security or save for children's education. He may also wish to maximize current income, maximize capital gains or set a middle course of current income with some appreciation of capital. In addition, the investor takes risk of the investment into consideration as investors' investment objectives are closely tied to their risk tolerance. When an investor defines his or her investment objectives, it helps to determine the type of investment to be selected to achieve the objectives. For example for a source of regular income, an investor might select a portfolio of dividend-paying stocks, whereas a portfolio of growth stocks may be chosen to maximize capital gains. Once the investor defines his investment objectives he can then decide on a plan of action.

The plan of attack that an investor uses to realize his investment objectives is referred to as the investment strategy. It could refer to how the investor allocates capital among several options. In the capital market, this would include growth stocks, income-generating stocks and blue chips, as well as government bonds and corporate bonds. The strategy takes investors' risk tolerance as well as future needs for capital into account. The investment strategy could also refer to the basic standards and beliefs guiding investors' investing practices. This could also be referred to as investment philosophy and is influenced by factors such as investment goals, risk tolerance and personal beliefs about what guides the capital market. For instance, in analyzing investments, one investor may use technical analysis, which employs only statistical information, while another uses fundamental analysis, which employs both quantitative and qualitative information. The way and source that an investor obtains the information he uses to make his decision also constitutes investment strategy.

An understanding of the investment objectives and strategies of the individual investor is crucial for the development of capital markets, especially in an emerging market like Nigeria, More so at this time when the country is in dire need of capital to diversify its economy in the light of fast- disappearing revenues from crude oil on which it has been dependent on for so long. When these objectives and strategies are determined, they should provide information that will, first guide stockbrokers and portfolio managers on how to advise clients on the choice of investments. Policy makers can also make use of this information to tailor policies that will be used to develop the capital market for more efficient capital mobilization.

Research in this area is virtually non-existent in Nigeria, as most of the studies were conducted in other developing and developed countries. To this end, this present study seeks to determine the investment objectives and strategies of individual investors in the Nigerian capital market to gain an insight into their motives for participating in the market.

2. Review of Literature

Academic researchers have identified various investment objectives pursued by investors which define the goals for their account. Stifel (n.d.) proffers four basic investment objectives as follows: income, growth, growth and income, and speculation/active trading/complex strategies. While it is possible for an investor to have more than one of these objectives, most portfolios are guided by one major objective, with all other potential objectives having less significant weights. Choosing a single strategic objective and assigning weighting to all possible objectives depends on certain investor characteristics such as his or her stage in life, family situation, marital status, investor's temperament, among others.

Current income is an objective that is focused on getting returns on investment as quickly as possible. High-interest bonds and high-dividend stocks are strategies used to accomplish this objective. The growth objective is for an investor seeking a portfolio that can provide for capital appreciation while recognizing and accepting the risks inherent in investments of this type. Growth investments generate little or no income, but have the potential for capital appreciation. The strategy is to collect an array of emerging stocks - shares of small companies in new businesses - in a portfolio. The expectation is that one or more of these investments will turn out to be exceptional in performance, thereby offsetting the effect of those that go into oblivion. Growth stocks generally do not offer dividends. The payoff with this strategy is in getting many multiples of what is invested today when it is sold in some years from now. Growth with income is an objective for an investor seeking both higher returns from capital appreciation and some current income. The strategy is to choose a portfolio that combines growth equities which produce little or no current income and in income-producing investment. Speculation/ active trading is an investment objective for an investor seeking higher possible capital appreciation while recognizing and accepting high degree of risk associated with such investments and strategies, including the total loss of capital. Common stocks are generally the most speculative of investments as their return depends on what will happen in an unpredictable future.

Lease, Lewellen and Schlarbaum (1974), analyzing the investment strategies of American shareholders, found that long-term capital appreciation was the prime investment concern with dividend and intermediate term gains running second and short-term gains ranking third on the list. They also reported that investors had little interest in speculative investments. Similarly, Jackson (2003) in Australia found that household investors were more focused on long-term share investments rather than in speculative short-term investments. Rajarajan (2003) found that Indian investors had safety and liquidity as their primary consideration in choosing an investment. Shleifer and Vishny (1997) and Low (2004) argued that capital market investors in East Asia are more prone to short-term, speculative rumour-driven share investments.

Lewellen, Lease and Schlarbaum (1977) in their study on patterns of investment strategy and behaviour among individual investors found that while older investors in the U.S. favoured long-term capital gains, younger investors preferred short-term capital gains. Graham and Kumar (2006) evaluated portfolio holdings of older and low income retail investors and reported that they prefer dividend-paying stocks. Shaikh and Kalkundarikar (2011) reported that most of the retail investors in Belgaum District in Karnataka State had "to earn a regular income" as their primary objective of investment. This was followed by safety of capital, capital gains and after-retirement security, in that order.

Surendar (2015) in his study on equity investment strategies of 500 retail investors from 5 cities in India found that nearly 50% were for 'reasonable rate of interest', 21% for 'capital appreciation' and 17% for 'speculative profits' of the stock market. Only about 9% and 6% of the investors invested for 'pride of ownership of blue-chip stocks' and 'quick and higher returns' respectively. Koti and Karthikeyan (2015) in Tamil Nadu, India found that 'safety of capital', was ranked as the first objective of retail investors, while 'income' was ranked as the second objective. These two objectives were followed by 'liquidity and marketability', 'capital appreciation', 'tax benefits' and 'diversification benefits'.

In Nigeria, Aregbeyen and Mbadiugha (2012) reported that future financial security was very important to investors in the capital market. Bonus payment was also an important objective for the Nigerian investor. Obamuyi (2013) identified capital increases, bonus and dividends as important to the Nigerian investor.

A number of empirical studies have been conducted to identify the types and sources of information that investors require to choose a particular firm's share. Baker and Haslem (1973) highlighted accounting information as one of the important selection criteria for investment decisions. Corporate reports have also been found to be an important source of information for investment decisions (Abdulla, 1992; Abu-Nassar & Rutherford, 1996). Al-Ajmi (2009) revealed that financial reporting provides useful information to potential investors for making rational investment decisions and added that historical profits, expectation of a higher price of stock, increase in the distribution of cash dividends are other factors.

Swarup (2003) reported that investors give more importance to their own analysis as compared to brokers' advice and they also considered market price as a better indicator than analyst recommendations. Surendar (2015) found that retail investors adopt very simple and less time consuming strategies for making investment decisions.

From the foregoing it is obvious that retail investors have diverse investment objectives and strategies which they employ to achieve those objectives, knowledge of which is necessary to identify the motivations of investor. This information will enable stockbrokers and investment managers to better advise them as to the best investment alternatives in the capital market. The absence of literature in this area in Nigeria necessitated this study. It is therefore hoped that this study will fill this gap.

3. Methodology

The study aims to identify the investment objectives of retail investors in the Nigerian capital market, rank them in order of importance and identify some of the strategies they employ to achieve these objectives. Primary data obtained from questionnaires administered on 130 retail investors from 3 cities- namely Lagos, Abuja, and Jos was descriptively analyzed using mean scores and standard deviation.

Respondents were asked to evaluate the importance of eight variables which were identified from survey of literature and personal interviews with investors and financial experts as the investment objectives of investors in the capital market, using a 5-point Likert-type scale. There were 5 choices against each of the variables ranging in varying degrees from 1 to 5, where 1 represents 'Not important' to 5 representing 'Very important' depending on the influence of the variable on the investor's motivation to invest in the capital market. The eight investment objectives were 'short-term price increase', 'long-term price increase', 'security reasons', 'dividend income', 'speculative purposes', 'diversification purposes', 'it's the vogue' and 'fun/excitement'.

To determine the investment strategies employed, investors were asked to indicate which sectors they had invested in, and also indicate how they obtained their shares – whether through the primary market or secondary market or both. They were also asked to indicate the source of information they used to make decision on which stocks to invest in. Analyses was carried out using descriptive techniques which employed mean scores and standard deviations. SPSS 21 software was used to analyze the data.

4. Results and Discussions

4.1 Investment Objectives of Retail Investors

Table 1 shows the investment objectives of retail investors, the mean scores, standard deviations and the ranks assigned to each objective.

Table 1: Ranking of the General Investment Objectives/Strategies of Respondents

Factor	Mean Score	Standard Deviation	Rank
Short term price increase	3.07	1.17	5
Long term price increase	3.77	1.27	2
Security reasons	4.00	1.14	1
Dividend income	3.74	1.26	3
Speculative purposes	3.18	1.29	4
Diversification purposes	2.82	1.25	6
It's the vogue	2.48	0.80	7
Fun/Excitement	2.47	0.84	8

Source: Field Survey, 2014

The investors consider 'security reasons' with a mean score of 4.00 as the most important investment objectives for participating in the capital market, followed by 'long-term price increase' (mean score 3.77) and 'dividend income' (mean score 3.74). These were followed by 'speculative purposes' (mean score 3.18) and short-term price increase (mean score 3.07). This ranking indicates a clear dominance of security and economic considerations in the investment objectives of respondents. It also indicates that the Nigerian investor is more likely to be a long-term investor rather than a speculative or short-term investor.

4.2 Portfolio Holdings of Respondents
Table 2 shows the industry sectors in which retail investors had invested in.
Table 2: Portfolio Holdings of Respondents

Industry Sector	Frequency	Percent
Banking	113	87.6
Food/ Beverages & Tobacco	65	50.4
Petroleum Marketing	58	45.0
Breweries	57	44.2
Building Materials	50	38.8
Agriculture/Agro-Allied	47	36.4
Insurance	45	34.9
Conglomerates	38	29.4
Airline Services	34	26.4
Healthcare	32	24.8
Real Estate	27	20.9
Chemical/ Paints	27	20.9
The Foreign Listing	24	18.6
Maritime	23	17.8
Automobile/ Tyres	22	17.1
Packaging	21	16.3
Industrial & Domestic Products	19	14.7
Media	17	13.2
Commercial Services	17	13.2
Leasing	16	12.4
Mortgage Companies	15	11.6
Printing & Publishing	14	10.9
Engineering Technology	13	10.1
Information Communication and Telecommunications	12	9.3
Construction	11	8.5
Other Financial Institutions	9	7.0
Computer and Office Equipment	8	6.2
Real Estate Investment Trust	8	6.2
Road Transportation	8	6.2
Hotel and Tourism	6	4.7
Machinery Marketing	6	4.7
Textiles	2	1.6

Source: Field Survey, 2014

From the table, respondents find the Banking sector the most attractive as 87.6% of respondents have investments in the sector, followed by the Food, Beverages and Tobacco sector with 50.4% of respondents having investment in the sector. These were followed by Petroleum marketing, Breweries, and Building materials with 45.0%, 44.2% and 38.8% of respondents having investments in these sectors respectively. The dominance of the Banking sector as first choice may not be unconnected with the banking consolidation policy of the Federal Government in 2005/2006 where banks in the country approached the capital market to raise funds. The period was characterized with increased activity in the market in which a number of bank's initial public offers (IPOs) and public offers (POs) were offered to the general public.

4.3 Patronage of Primary and Secondary Markets.
Table 3 shows the level of patronage in the two segments of the capital market by respondents

Table 3: Patronage of Primary and Secondary Markets

Market	Frequency	Percent	Valid percent	Cum percent
Primary Market	42	32.3	37.2	37.2
Secondary Market	35	26.9	31.0	68.1
Both	36	27.7	31.9	100.0
Total	113	86.9	100.0	
Missing System	17	13.1		
Total	130			

Source: Field Survey, 2014

From the table 37.2% of respondents obtained their shares exclusively through the primary market compared with 31.0% who obtained them through the secondary market and 31.9% who had patronized both markets. 17 respondents did not indicate how they obtained their shares. From this result over a third of the respondents did not participate in the secondary market which is an indication that many investors in the Nigerian capital market do not actively trade their shares and may be passive investors. This buy-hold attitude may be responsible for the lack of liquidity in the market. It could also restrict entry of new investors into the market.

4.4 Information Source for Share Selection Decision

Table 4 shows the mean scores, standard deviation and ranking of the information sources retail investors employ to decide on which company shares to invest in.

Table 4: Ranking of Information Sources for Share Selection

Information Source	Mean Score	Standard Deviation	Rank
By self analysis of the financial statements of companies	3.59	1.31	1
By recommendation from my stockbroker/brokerage firm	3.46	1.24	3
Recommendation from friends and family members	2.70	1.15	4
Financial advisors and analysts recommendation	3.53	1.28	2

Source: Field Survey, 2014

From the table, respondents attach the most importance to self-analysis of the financial statements of the companies they invest in. This is closely followed by recommendation of financial advisors and analysts and also recommendation of their stockbrokers. Recommendation from friends and family members was of least importance indicating that information is important for share selection and thus the need to acquire it or to rely on those that are believed to possess the required information.

5. Conclusion

Retail investors have diverse reasons why they invest in the capital market. Usually there is one dominant objective with other potential objectives having less significant weights in the scheme of things. The findings in this study show that the primary investment objective of retail investors in the Nigerian capital market is for security. This is followed by long-term price increase and short-term price increase, indicating that the average Nigerian investor is primarily a long-term investor, even as he may be speculative from time to time. The study also reveals that investors prefer to invest in the shares of Deposit Money Banks followed by shares of companies in Food/Beverages/Tobacco, Petroleum marketing, Breweries and Building materials sub-sectors which apart from Petroleum marketing are in the manufacturing sector. Investors are more likely to obtain their shares from the primary market and more than a third of retail investors did not patronize the secondary market. This has resulted in the relative low liquidity of the Nigerian stock market. Investors rely more on self-analysis of financial statements of the companies in which they invest in, followed by the recommendation of financial advisors and analysts. They place less importance on recommendation from family and friends. An understanding of the investment objectives of investors as well as the strategies they adopt should provide capital market practitioners with the necessary information to design appropriate portfolios for investors and act as a guide to policy makers for coming up with policies which can be adopted in the market to enhance more efficient capital mobilization and development of the capital market.

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