

## Investors' sentiment: A study with reference to Ethiopian share market

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### Abstract

The main objective of this study is to identify factors influencing the investors' perception on investing in shares. The study of investors' sentiment has become the prominent area of behavioural finance researches as the theory of efficient market hypothesis, which state investors react & perform in the market rationally, while empirical evidence in behavioural finance literature shows that individual investors do not behave rationally. Our research is descriptive in its nature it only tries to explain what is there only. We have collected our data using structured questioner. After coded the data has been analysed using SPSS version 20. We used descriptive statistics such as frequency and percentages, and one sample t-test. We have found that there is only primary share market is operating in Ethiopia and companies are selling their share in primary market since there is no established stock exchange. The t-test result has revealed that there is a positive overall investors' perception about investing in shares. Industry in which the company is operating, whether company is new or old, easily transferability of shares, par value of shares, and the goodwill of the company are factors affecting influencing investors to invest in shares. Earning dividend is one of the motivating factors for investors to purchase shares. Positive investor's sentiment is vital for the development of share market in Ethiopia.

**Keywords:** Investors' perception, Share market, Ethiopia

### 1. Introduction

Being a major participant in a stock market, retail investors' trading behavior has drawn the attention of academicians and Investment practitioners globally (Shanmunham & Ramya, 2012) [1]. When it comes to money and investment, human behavior do not always maintain the expected level of rationality. That is why studies on behavioral patterns of investors has become the central study areas of scholars in the current as well as previous centuries (Kukraja, 2012) [2].

Investors' reaction to new stock issues and other related factors that determine the behavioral pattern of investors has become the central part of recent studies. There are to polar of investor behaviors study models one is the efficient market hypothesis which posit investors are rational & the stock prices are determine based on available information so that investors cannot earn above average return without accepting above average risk Malkiel (2003) [3] & the other is behavioral finance is a study of psychology on the behavior of financial market participants and its subsequent effect on the market; which tries to explain why and how the market might be inefficient (Sewell, 2010) [4].

Though fixed income securities are risk free investment options, considering the impact of inflation, investing in equities is more valuable. However, investors usually refrain from investing in equities as the they found the equity asset class are dangerous due to its wild fluctuation & high probability of companies being bankrupt (Parikh, 2009. P. 15) [5].

### 2. Statement of the problem

As it has been indicated in various researches that investors' perception or attitude has a significant impact on the timing and number of initial public offering (IPO) and the potential of Market capitalization. Satisfied (investors with more optimistic

attitude towards share investment) are the essential elements of stock market (Rashid & Nishat, 2009) [6]. Empirical evidences in behavioral finance literature shows that individuals do not behave rationally (Tekce & Yilmaz, 2015) [7]. There are various factors that motivate investors to participate in stock market. Their active participation is very crucial for the development and efficiency of stock market.

The investment decisions are the functions of several variables such as characteristics of the market, individual risk portfolios, and information in relation to the financial performance of the company (Nagy and Obenberger, 1994) [8].

Retail investors think about their investment needs, targets to be achieved, and constraints while they are making decision in relation to their investment. However, achieving all successfully at a time may not be possible. Their stance is influenced by factors such as dividend, wealth increasing strategy, trading facilities, investors awareness programs, experience of other successful investors and the like (Hussein & Al-Tamimi, 2006) [9].

### 3. Objective of the study

The main objective of this study is to identify factors influencing the investors' perception on investing in shares.

The following are specific objectives:

- To know about the share market operation in Ethiopia
- To examine factors influencing factors to invest in shares
- To study the motivational factors to invest in shares
- To assess the impact of investors sentiment on the growth of share market in Ethiopia

### 4. Literature review

Time and risk are the two main attributes of investment. It is a commitment of funds made in the expectation of some positive rate of return and concerned with purchasing something of

value that will appreciate at a “fair” rate of return commensurate with the risk assumed over a long period of time (Fisher & Jordan, 1995; pp. 14 -15) <sup>[10]</sup>.

Almoe & Mikkelsen (2012) <sup>[11]</sup> stated that investors’ sentiment is one possible reason for the time-series variation in market condition of IPOs as well as their pricing pattern. *Does favorable investors’ sentiment have a real effects for firms that go public, or do they affect only financial markets participants?* Was the major research question raised & discussed in their study.

While Surendar & Rao (2001) <sup>[12]</sup>, are analyzing the acuity of Investors on the various issues relating to IPOs they have found that: about 68% of Investors do not know about application Supported by Blocked amount (ASBA) which enable authorization to block the application money to be blocked in the bank account for subscribing to an issue that has been specified by SEBI. But they fail to explain what the real impact of not knowing the presence of ASBA is. Majority of investors are using book building method.

Farzana, Rahman & Mazumder (2012) <sup>[13]</sup> has also identified that individual investors would like to invest in security market in view of it will be an alternative source of income & choose to invest in secondary market than IPOs or Mutual funds. However majority of their demographic factors except Education & Occupation do not have influence on their behavior.

## 5. Methodology of the study

### 5.1 Data sources & collection methods

Both types of data sources Primary and Secondary have been used. The primary data has been collected using structured questioner designed on 5-point likert scale for various variables, Secondary data are collected from sources such as Journal articles, books, websites, and various published & unpublished materials.

### 5.2 Sampling method

As identifying individual shareholders had been very difficult, snowball sampling had been used in the process of choosing respondents. This is a type of sampling which involves using probability method for selecting the initial respondent and then obtaining additional respondents through information provided by the initial respondent (Zikmund et al, pp. 398) <sup>[14]</sup>.

### 5.3 Sample size

We have used the following formula

$$n = Z^2 * \sigma^2 P / e^2$$

Where:

n= sample size

Z= the standard value variant at a given confidence interval. ( $\pm 5\%$ ) in our case.

e = acceptable error. In this study we are willing to accept a 5% error

$\delta p$  = standard deviation of the population

Since we are not able to determine population standard deviation as there is deficiency of related researches on the

issue in the in the study area. In such a case using trial sample standard deviation is an alternative way of solving the problem (Kothari, 2004, pp. 176) <sup>[15]</sup>. So we have used trial sample  $\delta$  which was computed to be 0.3869.

Accordingly, our sample size is determined to be

$$\begin{aligned} n &= 1.96^2 * 0.3869^2 / .05^2 \\ &= 230 \end{aligned}$$

The total sample that have been choose for the study was 230. Out of 230 questionnaires distributed 191 of them had been collected. After a due screening 5 of them have been discarded as they contain more than 4 missing values so 186 of the have been used which finally make the response rate to be 81%.

## 5.4 Data analysis tools & methods

After the distributed questionnaire has been collected, coded entered into MS-Excel and edited, it has been exported to SPSS version 20 for further analysis. Various descriptive statistics measure such as frequencies, mean, median, standard deviation & variances have been calculated.

## 6. Results and discussion

### 6.1 Share market operation in Ethiopia

Visiting historic perspectives of Ethiopian stock market reveals that, a short-lived stock market was formally established in 1965. The then government tried to advance resource mobilization by establishing a share-dealing group that brought together buyers and sellers to participate in an auction process (Assrat, 2003) <sup>[16]</sup>.

The legal framework for the development of corporate forms of business organization was provided with the issuance of the 1960 commercial code that set out the basic requirements for establishment of share markets in the system. It also describes the areas of business activities in which share companies could be formed (Abu, 1994) <sup>[17]</sup>. After a short lived operational stock exchange there was a government change followed by an introduction of command economic policy, which closes major sectors for private participation (Asrat, 2003; Yared, 2012) <sup>[16, 18]</sup>.

In the recent times, it is astonishing that various types of world media’s have often state the name of Ethiopia on the journey comparable to both massively developing and advanced economies of the world. This is due to the reason that history shows as this country have passed through the cobblestones of prevalent poverty, social and political war and diverse economic problems. As of today however, everything starts to change beginning from policy designing to green revolution, political stability to increments of foreign direct investment and to that end, there is economic rising (Desalegn, 2014) <sup>[19]</sup>.

### 6.2 Investors’ perception

This test is performed in order to examine whether the overall level of Investors satisfaction is significantly different from the neutral value of 3. If the average level of satisfaction is not statistically different from the neutral value we cannot execute further analysis as neutral value does not imply the presence or absence of satisfaction.

**Table 1:** One-Sample t-Statistics

overall level of invertors' satisfaction/perception		N	Mean	Std. Deviation	Std. Error Mean	
		186	3.4051	.56560	.04147	
Test Value = 3						
overall level of invertors' perception satisfaction/	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
	9.768	185	.000	.40511	.3233	.4869

Source: researchers own computation

As we can see from table 2 above the mean level of investors' satisfaction is statistically significantly different from the neutral value (3) at 95% level of confidence interval and more than it (3.4051) which indicate the prevalence of a positive attitude towards investing in shares by investors on average. This is good implication for companies that are planning to issue their shares to the public in recent years

**6.3 Factors influencing investors to invest in shares**

**Table 2:** Factors influencing to invest in shares

	N	Mean	Std. Deviation
easy transfer of shares	186	3.65	1.087
industry in which the company is operating	186	4.44	.587
whether company is new or old	183	3.79	.904
par value of shares	184	3.53	1.116
availability share	170	3.44	.960
Geographical proximity	184	3.02	1.192
good will of the company	186	3.82	.927
premium charges	185	2.95	1.122
unavailability secondary market	180	3.28	1.197

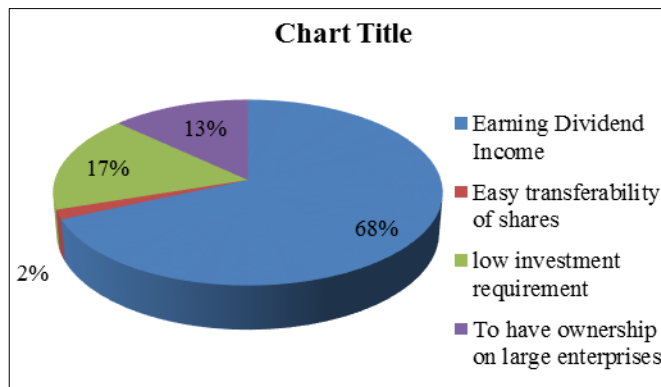
Source: researchers own computation

As it is depicted in the table 2 above industry in which the company is operating, whether company is new or old, easily transferability of shares, par value of shares, and the goodwill of the company are criteria considered as a most significant factors and given due consideration before making investment decision. Investors usually measure the good will attribute of by considering the professional and personal attributes of the company. That is why most companies try to avail the images of their founder especially if they are well known for their success in the country in their field. It is going create a confidence on share buyers and investors are going to think the success probability of the company is highly positively affected by the involvement of these individual in the foundation of the company.

Other variables investors are neutral about their relevance as criteria are geographic proximity of the company, and premium charges for share purchases. Geographic proximity is not a criterion to be considered since most of the companies are concentrated in Addis Ababa, the capital city of the country, and shareholders can easily access information regarding the operation of the company.

**6.4 Motivational factors to invest in shares**

There are two primary motives for investors engaged in investment activates. This includes maximizing their income and minimizing costs incurred in relation to their investment. Motivational and push factors are various aspect share investment that motivate investors to buy shares and to remain active participants in the share market.



Source: Researchers Own Computation

**Fig 1:** Motivations of investing in shares

Figure 1 above reviled that the principal motive for investing in shares is earning dividends. About 68 percent of respondents state their rationale of investment is earning dividend income. The next frequently stated motive of investment is low initial capital. In most cases, companies require investors to invest a minimum of 5,000-birr shares. This can be considered as a low level of initial.

**6.5 Impact of investors on the growth of share market**

Ethiopian share market is at its infancy stage and operating on in primary market. There is no established stock exchange. Lack of investors' participation discourages companies from going it is vital for the growth of capital market. For developing countries like Ethiopia individuals cannot raise funds so easily sine the per capital income is low and saving to GDP ratio is also very minimum. Law saving rate drain banks and make them unable to provide funds for loan to the level required.

**7. Conclusion**

Our tests reveal that investors in Ethiopian primary market are having positive perception on investing in shares. Recent developments in primary share market are promising and can fasten the establishment of secondary market in the country. Industry in which the company is operating, whether company is new or old, easily transferability of shares, par value of shares, and the goodwill of the company are criteria considered as a most significant factors and given due consideration before making investment decision. The principal motive for investing in shares is earning dividends.

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