
GROWING THE NIGERIAN ECONOMY THROUGH THE CAPITAL MARKET: PERSPECTIVE ON THE NIGERIAN STOCK EXCHANGE

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ABSTRACT

The stock exchange is a major financial institution in the capital market. The Exchange provides the medium for the raising of long term funds for commerce and industry through sale of stocks, bonds and shares, which enables an individual to become owners in such organization. The study examines the role of the Nigeria Stock exchange, Its members, its primary and secondary markets. It discussed ways through which growth can be achieved in the Nigeria Economy. It also discussed ways through which economic growth can be achieved. These include stag-investing, share price appreciation, dividends payments, rights issues, bonus shares, use of share certificates as collaterals for loans and overdraft and bequeathal of shares to one's dependants. Lucid examples were given to illustrate the benefits of investing in shares. Steps to be taken in buying or selling stocks and share were talked about in addition to how to monitor one's investments in shares. Recommendations were given which included increase in personal savings and ploughing them into the purchase of stocks and shares. It was also recommended that investors should constantly read the Daily Official List of the Stock Market so as to monitor shares prices movement, and thus guided on when to buy more shares or sell.

Keywords: *Capital Market, Stock Exchange, Economic Growth, Economy, Investment.*

INTRODUCTION

Nzewi (2007) sees an economy as consisting of the economic system of a country or other areas the labour, capital and land resources and manufacturing, production, trade, distribution and consumption of goods and services of that area. Agundu (2000) argued that economic growth is an increase in the capacity, of an economy to produce goods and services, compared from one period of time to another. The capital market provides investable funds at such low cost that no other institution within the capitalist economy can afford. Iloh (2010). It deals in long term funds and corporate stock such as ordinary shares and debentures of companies. It also deals in government bonds, stocks and securities. Thus, the capital market function the stock exchange. Akinselure (2010). Iloh (2010) defines a stock exchange as a place where securities of varying types are traded openly with relative ease, securities being documentary evidence of ownership or entitlement to claim upon the assets of the issuing organisation. Ross et al (2002) refer to a stock exchange as an organized market with physical location and facilities for trading in stocks and shares through professional intermediaries known as stock brokers.

Nwezi (2007) saw a Stock Market as a place for the sale and purchase securities in which the prices are determined by the laws of demand and supply. In summary therefore, a growing and effective capital market will bring about economic empowerment through the stock exchange by giving individuals means of making profit through trading in stock and shares. Profits made are into other areas, thereby increasing the capacity of the economy to produce more goods and services.

Development of the Nigerian Stock Exchange

The Lagos Stock Exchange was incorporated on 15th September, 1960 with seven members subscribing to its memorandum of Association. The Lagos Stock Exchange Act, 1961 was passed which gave it recognition and authority to trade in stocks and shares. According to Iloh (2010), there were seven subscribers to the Exchange's Memorandum of Association, namely:

- i. R.S.V. Scott, representing C.T. Bowring and Co. Nigeria Ltd.
- ii. Chief Theophilus Adebayo Doherty.
- iii. John Holt Ltd.
- iv. Investment Company of Nig. Ltd.(ICON)
- v. Sir. Odumegwu Ojukwu
- vi. Akintola Williams
- vii. Alhaji Sheshu Bukar.
- viii.

In 1977, the Lagos stock Exchange was transformed into Nigerian Stock Exchange with its Head Office in Lagos, branches at Kaduna (1978), Port Harcourt (1980), Kano (1987), Onitsha (1990), Ibadan (1990), Abuja area Office (1999), Benin –City (2001), Yola (2002) and Uyo (2006).

Members: Apart from the seven founding members of the Stock Exchange, there are three categories of members. These are

- (a) The Ordinary members
- (b) The Dealing members
- (c) The Council members
- (d)

The ordinary members are individuals who by virtue of their integrity, experience in finance and business are likely to contribute to their objectives of the Exchange. The dealing members are stockbrokers who take a buy or sell order from their clients to Exchange. The council members constitute the policy making body of the Exchange. The council is made up of persons or firms with proven integrity and years of capital market experience.

TYPES OF MARKET ON THE NIGERIAN STOCK EXCHANGE

There are two types of markets at the Nigerian Stock Exchange. These are the primary and secondary markets.

- (a) **Primary Markets:** The primary Market is where companies and government raise new or additional capital for expansion and development from the public. The Stock Exchange co-ordinates the activities of other capital markets operators to raise such funds.

For example in recent times, many banks, insurance companies and other have been advertising, calling on members of the public to subscribe or buy their shares. Those companies and buyers are all operating in the Primary Market of the Nigerian Stock Exchange.

- (b) **Secondary Markets:** This is where a Trading Floor and other facilities are provided for the purchase and sale of already acquired stocks and shares. Each of the branches of the Nigerian Stock Exchange has a Trading Floor. The secondary market has First –Tier and Second – Tier securities markets. The First – Tier is companies that are large, well established and have good track records. The Second – Tier is for young companies with great potentials for growth, Agundu (2000)

Persons who are authorised to carry out trading on the floors are Stockbrokers. Stockbrokers are licensed by the council of Stock Exchange to buy and sell shares on behalf of their client and receive remuneration for their services in form of commission.

GROWING THE NIGERIAN ECONOMIC THROUGH THE NIGERIAN STOCK EXCHANGE

People can achieve economic empowerment by investing in stocks and shares. The following are those areas through which empowerment can be attained.

- (a) **Stag Investor:** According to B. Butler (1997), a stag investor is one who buys new issues in the hope that the price would rise higher than the issue price. From experience stags know that the price of many shares on public offer rise shortly after the offer has been concluded. They sell when the prices have appreciated and thereby make much capital gains.

For example , a stag investor buys 1000,000 share of XYZ company plc at ₦20 per in January, 2007 when there was a public offer at a cost of ₦2,000,000 in June, 2007, the share price appreciated (rose) to ₦40.00 per share due to increased demand for the shares as a result of an impressive 1st Quarter operating results. The stag can decide to sell the 100,000 shares at ₦40.00 per share which is ₦4,000,000, thereby making capital gain of ₦2,000,000, which is 100%.

- (b) **Share Price Appreciation (Rise in Share Price):** Shares should not be bought and held onto because fortunes are made through trading them. The general maxim in the purchase and sale of stocks and shares is to "buy low and sell high". This means that

shares should be bought when prices are low and sold when prices are high, because share prices follow the normal business cycle and lows that is rise and fall.

For example if an investor buys at ₦50.00 and the price has risen up to say ₦100.00, the investor should sell so as to make capital gain on his share. If he fails to sell, the next stage would be a fall in the price he could lose income.

Conversely, if an investor is still on to shares whose prices are plummeting (falling), it would be wiser investment decision to sell the shares so as to cut his loss.

(c) Dividends Payment: majority of investors purchase shares in anticipation of dividend payments. Dividends are payments made to the shareholders for the ownership of shares of a company. The payments are made from the profit of the company and are shared proportionally according to the number of shares that a shareholder has.

According to Van Horne and Machowicz (2005), dividend per share is the actual income received by a shareholder for the year. It is stated by the formula:

$$\frac{\text{Dividends}}{\text{No. of Shares Outstanding}}$$

For example, if the amount of the dividends declared in a year by the Board of Directors is ₦20, 000.000 and there are 1,000,000 shareholders, the dividend per share (DPS) would be

$$\frac{\text{₦20,000.000}}{1,000,000} = \text{₦20 per share}$$

The Total dividend to be received by John Okoro who owns 10,000 shares would be ₦2,000.000. Dividends are paid annually and if the operations of the Company are increasing Mr. J. Okoro is likely to receive ₦2,000.000 every year from that investment alone. If he has such investment in five companies, he would be smiling to the bank every year with ₦1, 000.000.

(d) Rights Issues: In this existing shareholders are first give the opportunity to buy the new shares being issued (Sao, 1998). Rights could be issued on a ration of one new share for every five shares held. The price at which rights issues are offered is normally lower than prevailing, market price. It is an opportunity for existing shareholders to acquire more shares at lower price and such they scarcely allow it to slip by.

(e) Bonus shares: Bonus shares are additional number of shares issued to existing shareholders (Pandy, 2007). The effect of Bonus share is to increase the number of shares that an investor has. Bonus shares are issued in ratios decided by the Board of

Directors. For example, Bonus shares can be issued in the ratio of 1:4 this means that one new share is issued for every four existing shares held by an investor. If Mr. J. Okoro has 40,000 shares, he would now be entitled to 10,000 new additional shares making his total shareholding to be 50,000 shares. In the next dividend payment, he would surely be entitled to more dividends by virtue of more shares that he now has.

- (f) **Collateral Securities:** According to Ogboghro (2006) share certificate are acceptable collateral securities when borrowing from the banks. If an investor has shares whose market value is ₦1,000.000 and he is asking for a loan of ₦1, 000.000, he need not run from pillar vto post to meet friends for that. All he needs do is to approach his bank, fill necessary forms, and deposit his share certificate and the ₦1, 000.000 overdrafts or loan would be given to. The Share Certificate would be given back to him as soon as he pays off the overdraft loan.
- (g) **Provision for Dependant:** Individuals make provision for their dependants before death. Share certificate are veritable bequeathal for one's dependants. Share Certificate can be transferred (or assigned) to such dependants. The dependants would as from that date start to reap the benefits of shareholding which include dividends, shares price appreciation, bonus shares, collateral securities, etc.

HOW TO BUY OR SELL SHARES

- (a) **Public Offers:** During public offers shares can be bought through banks or stockbrokers. Investors obtain form from the banks or stockbrokers, fill them and enclose certified cheques or bank drafts for the number of shares being applied for. At the end of the public offer, the number of shares allocated to an investor would be sent to him while money for the unalloted shares would be returned to him.
- (b) **Buying already acquired shares:** At the Nigerian Stock Market shares always available for purchase. Like in ordinary markets, there are investors ready to sell already acquired shares while buyers are equally available to buy them. At the Stock Market investors only buy or sell through stockbrokers who are the licensed intermediaries.

BUY OR SELL ORDERS

When an investor wants to buy or sell shares, he approaches a stockbroker. There he fills two forms. If it is a buy order he deposits his money with the stock broker for the number of the identified shares he wants to buy. The stockbroker issues him a receipt.

If it is a sell order, the investor deposits the share certificate or statement of CSCS stockholding position with the stockbroker who issues him (the investor) with a Share Certificate Deposit Form.

Trading Floor: When the stockbroker has filled the forms he takes the investor’s buy or sells orders to the floor of the Stock Exchange to carryout the client’s buy or sell order. At the end of each day’s trading, the stockbroker retires to his office and allocates shares purchased to his buying clients. If it is a sell order, the investor receives a crossed cheque from the stockbroker for the shares sold for him.

Contract Note: The Stockbroker prepares a purchase Contract Note for a buying investor and sales Contract Note for a selling investor. The contract note states the quantity of shares purchased or sold for the investor, the price and date of transaction.

HOW TO MONITOR YOUR INVESTMENT IN SHARES

At the end of each day’s trading on the floor of the Nigerian Stock Exchange, a Stock Market Report which is called “The Daily of Official List” is issued. It is summary of transactions that have taken place on each trading day Ross, et al (2002).

It is ruled vertically in several columns, among which columns are for the Current Market Price, Business Done, Dividends paid and Earning per share (EPS). An alternate to Daily Official List is the Financial Standard newspaper.

For an investor to known which share to buy, he has to watch the EPS column. It is Profit After tax dividend by the number of Shares Aborode, (2006).

If Profit after Tax of a company is N10, 000.000 and the No. of Shares is 200,000, EPS

$$\frac{\text{PA}}{\text{No. of Shares}} = \frac{\text{N10,000,00}}{200,000} = \text{N50}$$

An investor should look at the EPS column and buy those shartes with the higher EPS.

SUMMARY AND CONCLUSION

This paper defined the Capital Market, the Stock Excahnge and traced the development of the Nigerian Stock Exchange. It also talked about its members, the Primary and secondary Market, the Paper threw some light on the steps to be followed in buying or selling shares, and discussed how economic Growth can be achieved through Stock Exchange, it is proper that people should avail themselves of tremendous opportunities at the Nigerian stock Exchange to empower themselves economically.

RECOMMENDATION

As follow up to the discussion in this conference paper, these recommendations are put forward:

- Economic growth and empowerment are functions of investment, and investment is dependent on savings. Nigerians should therefore restrain themselves from ostentation living, increase their savings and invest these at the Stock Market.

- When there are public offers for purchase of Shares, people should make extra-efforts to buy since the offers will have a lot of positive multiplier effects on their economic well-being.
- Shareholders should monitor their investments in shares regularly by reading the Daily Official Report of the Nigerian Stock Exchange. This enables them to know when share prices are rising or falling, and when to or sell.

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