Developing Country Studies
ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
Vol 2, No.9, 2012

THE CRASH OF THE NIGERIAN STOCK MARKET: WHAT WENT WRONG, THE CONSEQUENCES AND THE PANACEA

E. Chuke Nwude
Department of Banking and Finance, Faculty of Business Administration
University of Nigeria Nsukka, Enugu Campus. e-mail:chukwunekenwude@yahoo.com

Abstract

As a result of the economic reforms that began in 2003 in Nigeria, earning Nigeria a BB- credit rating, which led to US$18bn debt write-off and created pension funds which have several billions of Naira to be invested in Nigerian securities, investors confidence was ignited and lifted in Nigeria Stock Market. The banking sector reforms which necessitated recapitalization also fuelled a boom in the equity market. Most Nigerian bank stocks increased in value many folds, despite billions of Naira of new shares being issued, with some stocks more than quadrupling in value in less than a year between 2004 and 2007. Companies kept the free float of offers which were greatly matched by demand. The capital market thus became the haven for profit taking. From an all time high of N13.5 trillion market capitalization in March 2008 the stock prices experienced a free-for-all downward movement to generate less than N4.6 trillion market capitalization by the second week of January 2009 and N6.53 trillion as at last trading day of 2011. With this downward movement regime, more than 60% of slightly above 300 quoted securities were on constant offer (supply exceeding demand) on a continuous basis. Consequently many of the quoted stocks lack liquidity as their holders are trapped, not being able to convert them to cash to meet their domestic and other investment needs. Fresh investors became cautious of jumping into a vehicle that does not seem to have a brake should they wish to disembark. With exploratory research, the study discovered that the downturn was caused mainly by fears of contagion effects of the then rampaging global financial crisis. The consequences were legion as many investors lost heavily in terms of capital employed, confidence in the market and the capacity of pension funds to meet their obligations as they become due. The panacea lies in restructuring the toxic assets generated by the downturn into marketable instruments, to give a fresh start to the affected firms.

Introduction

The first trading day of 2008 which was Wednesday demonstrated bullishness in the Nigeria stock market. The All-Share Index (ASI) of the Exchange rose by 589.55 points or 1.02 percent from 57,990.22 points at which it closed in the last trading day of 2007 to close at 58,579.77 points. Market capitalization rose by N100 billion or one percent to N10.3 trillion. At the end of January 2008, the ASI closed at 57,845.50 and market capitalization also closed lower at N10.51 trillion. In February, the market was very bullish. The All-Share Index recorded an historic highest on Friday February 22, closing at 64,128.69, while market capitalization stood at 12.30 trillion. Nevertheless the month of March witnessed a reversal. Bears got hold of the market and equity prices began to fall. In the first week of the month, though, the ASI rose to 66,121.93 and market capitalization went to N12.6 trillion, in the second week, ASI went down to 65,005, and market capitalization fell to N12.4 trillion. By March ending, the ASI dipped to 63,147.04. In April, bears started reigning massively in the market. The prices of equities began the free crash and the ASI fell to 60,339.68 and market capitalization was down at N11.68 trillion. As at end of May 2008, the ASI slightly went up to 60,570.30 and market capitalization to N11.93 trillion. In June, the ASI closed lower at 54,905.36 and market capitalization also closed lower at N10.72 trillion. During the month of July, bears reigned supreme and the ASI closed lower at 50,422.78, while the market capitalization went down to N10.10 trillion. In the month of August, the ASI and market capitalization dropped to 47,789.20 and N9.74 trillion respectively. Though the ASI further plummeted to 46,216.13 but market capitalization went up marginally to N9.84 trillion in September. In October, price movement went for a free fall following the removal of the restriction of one percent maximum downward movement of share prices, which was introduced by the NSE as a solution to persistent fall of equities' prices. The ASI stood at 36,325.86 while market capitalization remained at N7.96 trillion. As at November, the ASI opened at 36,352.86 points, falling to 33,754.11 points on November 5. Between November 6 and 17 it had a highest figure of 38,018.44, but fell on November 28 to close at 33,025.75. The decline was propelled by the actions of profit takers who disposed stocks in order to reap off quick gains.

On Tuesday, December 16, market capitalization closed at N6.21 trillion while the ASI stood at 28,085.01. The market suddenly took an upward movement on Wednesday December 17, when it closed at N6.28 trillion, while the ASI was 28,390.83. On Thursday, December 18, market capitalization stood at N6.4 trillion, while the ASI stood at 28,985.70. By Friday, December 19, 2008, the market capitalization has risen to N6.54 trillion, while the ASI stood at 29,551.84. Suddenly, the stock market staged a rebound and recovery recording gains, both in volume traded and

most especially, by price appreciation. During the period – January to December 19, 2008, All-Share-Index fell from an unprecedented high of 66,121.93 in the first week of March to 29,551.84 shedding 36,570.89 or 48.1 percent, while market capitalization went down from N12.6 trillion in the same period to N6.54 trillion, losing N6.06 trillion in ten months. What accounted for these downward slides in the capital market indices is still somehow shrouded in mystery. The aim of this study is to unmask the causes, the consequences and the possible workable solutions to the problem.

Review of Previous Studies

Stock market behaviour has figured prominently in the development of modern theories of what determines the market price and value of securities. The modern theories regarding the valuation of stocks and other securities are the fundamentalists, the Technicalists (or Chartists), the Random Walkists, and the efficient market hypothesis. The fundamentalists use economic, financial and political news to determine why, when, and where prices will move in the market. It entails the examination of historical information that caused price movements in the past on each stock and using the analysis to forecast what will happen currently in the market. The fundamental analysis deals more with the WHY of price movements. The technicalists or Chartists focus on the study of stocks past price and volume placed on charts to predict future price movements, based on the stocks' past price pattern and trends. The analysis focuses on the formation of charts and formulae to capture major and minor trends, identify buying and selling opportunities and assessing the extent of market turnarounds. Depending upon the time horizon, one could use technical analysis on an intra-day basis (i.e. a minute, 15 minute, hourly), weekly or monthly basis. The Technical analysis deals more with the WHEN of price movements. Some tools used for technical analysis include stochastic indicators, moving averages and ratios. The Chartists believe that the past price behaviour of a security tend to recur in the future. For this reason careful analysis of stock price averages and the price of individual shares reveal important data concerning future price movements. But studies by Fisher (1961), Fama (1965) and others show that changes in stock prices are not significantly related to past price changes. Another test performed on the technical analysis theory has been to try various mechanical trading or filter, rules to see if the investor is better off using these rules instead of a simple "buy and hold" strategy. Filter rules usually require the investor to buy if a security's price goes up at least Y percent and sell when the security's price declines by X percent or more. Random Walk is a term used in mathematics and statistics to describe a process in which successive elements in a data series are independent of each other and therefore are essentially random and unpredictable. The theory of random walk as applied to stock price changes says that the price movements of stocks act as though they were independent random drawings from an infinite pool of possible outcomes. Each stock is assumed to have an intrinsic value based on investors' expectations of the discounted value of future cash flows generated by that stock. The market price per share is an unbiased estimator of a stock's intrinsic value and reflects the latest information available concerning the issuing company's condition and future prospects. Successive changes in the price of a stock are random fluctuations around that stock's intrinsic value, and these changes that occurred in the past. Therefore it is not possible to predict the stock price.

A broader theory of stock price movements is the Efficient Market Hypothesis (EMH) as spearheaded by Fama (1970), supported by Patell and Wolfson (1984), Seyhun (1986), Gosnell, Keown and Pinkerton (1996). A market is efficient if scarce resources are allocated to their most productive uses. A securities market is efficient if current security prices reflect all information about each security and quickly adjust to all available information. Therefore an efficient market is one where security current prices adjust rapidly to all available information. Security prices adjust instantaneously to new information and a new set of intrinsic values results, leading some investors to adjust their portfolios. All of this happens instantaneously so that market price always equals intrinsic value in a state of continuous equilibrium. Financial analysts with extraordinary ability to uncover new information may achieve above-average rate of return, at least for short periods of time. In an efficient market, the form of efficiency may be weak, semi-strong or strong. **Weak form** is a situation where information on past share price movements is only available. That is current stock prices fully reflect all historical data about the securities. The historical data include past sequence of prices, past rates of return, past trading volume etc. The market efficiency is weak because past rates of return and other past market information may have no relationship with future rates of return. That is there is little or no gain buying or selling based on past rates or data. **Semi-strong** form is a situation where information on past share price movements and published information relevant to each company are available. That is current stock prices fully reflect historical data and publicly available information. Public information includes earnings, stock splits, dividend announcements, P/E ratio, economic and political news etc. Investor who based their decisions on

new information after it has been made public cannot derive above average return because prices already reflect such information. **Strong form** is a situation where all interesting information be it historical data, public information and information available to privileged parties are generally available. That is, current stock prices fully reflect historical data, public information and privileged information. Information is cost-free and available to all at the same time. Since nobody has monopoly of information's relevant for price formation no group is able to consistently derive above average profit in a strong efficient market. Pareto efficiency states that the status quo cannot be changed without making someone worse off.

The EMH became controversial when some anomalies were detected in the stock market. Those who made the findings and their findings are as follows: Rozett and Kinney (1976), using New York Stock Exchange (NYSE) stocks, documented stocks prices for the period 1904-1974 and discovered that on the average, the return for the month of January was 3.48% compared to 0.42% for the other months. Later studies carried out by Bhardwaj and Brooks (1992) for 1977-1986 periods, Reinganum (1983) for 1961-1990 periods, also identified the same market anomaly which is termed **"January effect".** French (1980) analyzed the daily stocks returns for the period 1953-1977, and finds that there is tendency for returns to be negative on Mondays whereas they are positive on the other days of the week. He notes that these negative returns are caused only by the weekend effect and not by a general closed market effect. Therefore, he suggests that for a trading to be profitable in this situation, one should adopt the strategy of buying stocks on Mondays and selling them on Friday. Agrawal and Tandon (1994) find significantly negative returns on Monday in nine countries and on Tuesday in eight countries, yet large and positive returns on Friday in 17 of the 18 countries studied, up to 1987. Lakonishok and Maberly (1990) also documented the same effect. They termed this scenario **'Weekend effect'** or **Monday effect.**
Cadsby and Ratner (1992) came up with evidence from USA, UK, France, and Japan to show that stock returns are significantly higher at the last and first day of the month. Haugen and Lakonishok (1989) assert that US stock returns are significantly higher on the last and first three trading days of the month. Ariel (1987) finds that stock returns are higher on the last day of the month they termed this scenario **"turn of the month effect"**. Ariel (1990), Cadsby and Ratner (1992), and Brockman and Michayluk (1998) documented a **"pre-holiday effect"** where on the average stock returns are higher the day before a holiday than on other trading days. Apart from the calendar effects, Banz (1981) supported by Reinganum (1983) in his analysis of 1936–1975 period reveals that excess returns would have been earned by holding the stocks of low capitalization companies otherwise called the "small size firms" Reinganum (1983) provide evidence that the risk adjusted annual return of small firms were greater than 20%. This is termed **"small-size firm effect".** Fama and French (1995) find that market and size factors in earnings help explain market and size factors in returns. Basu (1977) opines that stocks of low P/E companies earned a premium for investors during 1957-1971 period and an investor who held the low P/E ratio portfolio earned higher returns than an investor who held the entire sample of stocks. Dechow, Hutton and Sloan (1999) document that short-sellers position themselves in stocks of firms with low P/E ratios since they are known to have commensurate future returns in terms of dividend income and price appreciation. Debondt and Thaler (1985,1987) present evidence that is consistent with the fact that stock prices overreact to changes in current earnings. They report positive estimated abnormal stock returns for portfolios that previously generally inferior earnings performance. This line of thought generates "over/under reaction of stock prices to earnings announcement".
Harris and Gurel (1986), find a surprising increase in share prices (up to 3%) on the announcement of a stock's inclusion into the S&P 500 index and this they called the "**S&P index effect".** The influence of phenomena such as snow, rain, sunshine, cloudy weather which put people in different moods, choices and judgements as discovered in NYSE (Hirshleifer and Shumay 2001) creates anomalies which cannot be explained within the existing paradigm of EMH, Efficient Market Hypothesis (EMH) propounds that information is instantaneously reflected in stock prices. This clearly suggests that information alone is not moving the stock prices. Hirshleifer and Shumay (2001) find that stock market daily stock returns are positively correlated with sunshine in almost all the 26 countries they analysed their data from 1982-1997. This they termed the **"weather effect".** Keynes (1936) views stock market as a "Casino" guided by "animal spirit" of investors with short-run speculative motives, who are disinterested in assessing the present value of future dividends or holding on investment for a significant period but rather interested in estimating the short-run price movements. As a result, shareholders are increasingly concerned with short term gains and have very short-term planning horizons. EMH and Keynes have two extreme views of the stock market. EMH is flawed on the ground that it is not guided by a complete knowledge of factors governing the decision. It fails to provide a realistic framework for the formation of expectations, given the uncertainly factor, Keynes is of the opinion that, to

make a rational decision would involve knowledge of future income flows, the appropriate discount rate, both of which are unknowable. And this creates insufficient knowledge for one to make forecast of investment yields. He submits that the future is uncertain and can never be determined, while EMH maintains that in the real world the investors are only faced with risk and not uncertainty. To drive his point home, Keynes came up with an analogy. In his analogy he likened the stock market to a beauty contest where the goal of any investor is to pick the girl that others would consider prettiest rather than choosing the one he/she thinks is prettiest. Hence the individual tends to conform to the behaviour of the majority. And what may be irrational at the individual level now becomes rational or the convention in Keynesian analysis.

On the Volatility tests, the examination of share price movements with respect to the movements in the fundamental variables, in order to ascertain the rationality of market behaviour is called the volatility tests. The first two studies applying these tests were by Shiller (1981), LeRoy and Porter (1981) and these spawned a series of articles. Shiller tests a model in which stock prices are the present discounted value of future dividends. LeRoy and Porter use a similar analysis for the bond market. These studies reveal significant volatility in both the stock and bond markets. Shiller suggests that if fluctuations in actual prices are greater than those implied by changes in the fundamental variables affecting the prices the difference comes as a result of fads (i.e. waves of optimistic or pessimistic market psychology). Schwert (1989) tested for a relation between stocks return volatility and economic activity. He finds increased volatility in financial asset returns during recessions, which might suggest that operating leverage increases during recessions. He also finds increased volatility in period where the proportion of new debt issues to new equity issues is more than a firm's existing capital structure. This may be interpreted as evidence of financial leverage affecting volatility. These results of excess volatility in the stock market have been confirmed by Cochrane (1991), West (1988), Campbell and Shiller (1987), Mankiw, Romer and Shapiro (1985). However the tests have been criticized, largely on methodological grounds by Marsh and Merton (1987).

Shleifer and Summers (1990:23-26) posit that there are two types of investors in the market – namely the rational speculators or arbitrageurs who trade on the basis of information and noise traders who trade on the basis of imperfect information. The imperfect information cause prices to deviate from their equilibrium. The imperfect information cause prices to deviate from their equilibrium values, whiles arbitragers play the crucial role of stabilizing prices by diluting such shifts in prices. They assert that perfect arbitrage under EMH is unrealistic as a result of fundamental risk and unpredictable future resale price. Given the limited arbitrage they argue that security prices do not merely respond to information but also to changes in expectations or sentiments which are not fully justified information. Investors' trading strategies such is trend chasing, tracking possible indicators of demand which constitute "noise" rather than rational evaluation of information make no sense if prices respond only to fundamental news and not to investor demand. But they make perfect sense in a world where investor sentiments move prices and so predicting changes in this sentiment pays. Black (1986) argues that noise traders play a useful role in promoting transactions and thus influencing prices and informed traders like to trade with noise traders who provide liquidity. Therefore so long as risk is rewarded and there is limited arbitrage it is unlikely that market forces would eliminate noise traders and maintain efficient prices.

On models of human behaviour that effect market behaviour, there were attempts to explain the persistence of anomalies rooted in human and social psychology. On this note, it is a well known fact that individuals have limited information processing capacity, exhibit systematic bias in information processing, are prone to make mistakes, are adjusting to rely on the opinion of others. Kahneman and Tversky (1986) argue that when faced with the complex task of assigning probabilities to uncertain outcomes individuals often tend to use cognitive heuristics, which often lead to systematic biases. Rabin and Thaler (2001) showed that the failure of expected utility theory of risk aversion is due to its failure to recognize the psychological principles underlining decision tasks. Shiller (1981) attributes the movements in stock prices to social movements and suggests that the final opinion of individual investors may largely reflect the opinion of a larger group. This type of **"follow the crowd or social fads"** approach is bound to cause excessive volatility in the stock market, with very little rational or logical explanation. Grinblatt and Keloharju (2001) assert that custom, language, and culture influence stock trades. Huberman and Regeve (2001) posit that how and not when information is released can cause stock price reactions. They exemplify this with the news about a firm which developed a cure for cancer. Although the news (information) had been published a few months earlier in multiple media outlets, the stock price more than quadruple the day after receiving public attention in the New York Times. Although there was no new information presented, the form in which it was presented caused a permanent price rise.

It is obvious that the EMH has stimulated a plethora of studies that looked among other things, at the reaction of the stock market to the announcement of various events such as earnings(Ball and Brown 1968), stock splits(Fama, Fisher, Jensen and Roll 1969), capital expenditure(McConnell and Muscrella 1985), divestitures(Klein 1986), and takeovers (Jensen and Ruback 1983). The usefulness or relevance of the information was judged based on the market activity associated with a particular event. Most of the EMH researches in the seventies focused on predicting prices from past prices while those of the eighties and nineties looked critically at the possibility of forecasting prices based on variables such as dividend yield(Fama and French 1995), P/E ratios(Campbell and Shiller 1988), term structure variables(Harvery 1991), and the inadequacies of the CAPM(Cutter et al 1989: Haugen and Baker 1996). Researchers repeatedly challenged the studies based on EMH by raising critical questions such as: Can the movement in stock prices by fully attributed to the announcement of events? Do public announcements affect prices at all? And what could be some other factors affecting price movements? Cutter, Poterba and Summers (1989) argue that most price movements for individual stocks cannot be traced to public announcements. Haugen and Baker (1996), in their analysis of determinants or returns in US, UK, Japan, France, Germany conclude that none of the factors related to sensitivities of macroeconomic variables seem to be important determinants of expected stock returns. The EMH contributed immensely to the understanding of the securities market but there were growing discontentment with the hypothesis. Presently in Nigeria, the stock market is subject to waves of optimistic and pessimistic sentiments even when no objective evidence exists for such sentiment, and stock price movements are caused largely by changes in the perception of ignorant speculators, tinted with a significant degree of order and coherence infused by the institutional and social structures. Therefore, with the exposure to the above propositions by experts, what actually accounted for the crash of Nigerian Stock market?

3.0 Research Methodology

To achieve the purpose of the study, a mixture of archival and survey study was adopted. This necessitated pursuing investors (both institutional and private individual), regulators, broking houses with questions to find out what actually caused the problem. These problems generated some discoveries that we shall see below.

4.0 Findings and Discussions

The global financial crisis really started to show its effects in the middle of 2007 and all through 2008 and continued unabated. The Crisis started in the U.S (due to certain laxities in the US financial and regulatory system), spread to Europe, and later became global. The collapse of the USA sub-prime mortgage market and the reversal of the housing boom in other industrialized economies had a ripple effect around the world. Furthermore, other weaknesses in the global financial system surfaced. Some financial products and instruments became so complex and twisted, that as things started to unravel, trust in the whole system started to wane. The extent of the problems has been so severe that some of the world's largest financial institutions have collapsed, AIG, the USA insurance giant being an example. Even countries not affected by the financial crisis were later affected by 'second-round effects' as the crisis became more fundamentally economic. Around the world, stock markets fell, large financial institutions collapsed or bought out, and governments in even the wealthiest nations had to come up with sizeable rescue packages to bail out their financial systems. According to the World Bank, the depth of the recession was difficult to gauge. Should credit markets remain frozen and asset prices continue to fall, then the decline in output over the future years could be extreme. However, the extraordinary measures taken by fiscal and monetary authorities were expected to eventually restore confidence so that banks will no longer hoard cash, and businesses can obtain the credit essential for normal operations.

4.1 What Went Wrong

Global financial crisis: That the world is indeed a global village and the world economies interrelated is very evident in the global financial crisis of 2007-2009. During this crisis, many stock markets of countries, from USA to Europe United Kingdom to France, from Asia China to Japan, Russia, and others were in serious trouble. Because of this interrelatedness, any development in any part of the world affects other parts as well. Consequently, the Nigerian capital market was not insulated from this global malignant cancer. The upward trend in the stock market which resulted in the market capitalization peaking at an all-time high of N13.5 trillion in March, 2008 was slowed down by massive decline in the global economy to less than N4.6 trillion by the second week of January 2009. The shrink in the foreign economies orchestrated capital flight from the Nigerian capital market as most foreign investors sought to make up for the deficits in their home countries. The pull-out of many foreign investors that already have troubles in their home economies from the Nigerian stock market led to the dumping of shares beyond the ability of domestic investors to contain. In consequence of this, supply of equities overwhelmed demand which led to price fall.

Political Upheavals in African Continent: The ongoing political turmoil in some North African countries affected trading activities on the NSE as major indicators recorded a significant decline as the war escalated. At January 25, 2011, market cap was N8.885trillion. On Wednesday (23/2/2011) market cap lost 0.1% (or N11billion) to close at N8.538trillion while on Thursday (24/2/2011) market cap lost 1.9% (or N158billion) to close at N8.380trillion. The NSE ASI fell in the same rate. These losses were traced to the unrest in some African countries and Middle East like Egypt, Tunisia, Algeria, Bahrain, Libya, Iran, Jordan and Yemen. The fresh round of withdrawals of funds by foreign investors, who account for a large proportion of investments in the Nigerian capital market accounted for the losses. There were sell-offs as a result of panic by foreign investors because of the crisis. These foreign investors see Africa as a continent and afraid that Nigeria can be affected in one way or the other.

Pronouncements by Regulatory Bodies: Recent pronouncement by IMF as at Thursday (24/2/2011) that the CBN might need to increase benchmark interest rates further and weaken the domestic currency to curb inflation, following increase in public spending is another reason for the decline recorded in capital market indices. As a result foreign investors became jittery that if the CBN decides to devalue Naira, they would lose some of their investments hence their mass exit from the market. The apex regulator of the Nigerian stock market, the Securities and Exchange Commission, prior to the crash of the market had alleged publicly that stock market prices were being manipulated and it announced that it was probing some quoted companies, such as Dunlop Nig. Plc, Eternal Oil Plc, Capital Oil Plc, and so on. Following the publication, investors became afraid that such statements coming from the principal regulator evidenced the existence of unrealistic prices of all stocks, thus provoking panic selling of stocks among investors. This contributed to the crash of the market. Unfortunately till date, not much has been heard of the outcome of the SEC investigation that transmitted shockwaves down the spines of investors.

Exorbitant operating cost: Unarguably **t**he cost of doing business in Nigeria is high. Inadequacy of basic Infrastructures like good roads, power supply, water supply, security of lives and property among others are lacking, leading to high cost of doing business. Many companies like Dunlop Nigeria plc and Michelin Nigeria have closed down their production plants as a result of exorbitant operating costs. Most of the textile industries have also stopped production, leading to the crash of their share prices. The shares of some of the companies now trade at nominal value of 50kobo per share. Therefore, evidently, high operating costs impact negatively on the share prices.

Enforced regulations: The influx of capital flow in the capital market can be traced to some previously enforced regulations. For example, on July 6, 2004 the Central Bank of Nigeria (CBN) mandated all banks to meet a minimum bank capital base of N25billion from the N2billion subsisting previously. Following the forced capitalization of banks to a minimum of N25billion, almost all banks utilized the capital market to raise funds. The banks that competed to recapitalize not only sucked liquidity from the Nigerian financial system but also overheated it. Through enticing marketing strategies, the banks succeeded in their various offers, but left the capital market place bleeding and gasping for breath. The primary market seemed to experience a boom while the secondary market was sucked dry as many investors dumped their shares in the secondary market, in favour of the primary market offers. Total of N2.2 trillion was raised through various public offers dominated by the banks in 2008. Much of this came through disposal of shares in the secondary market. Similarly, in the insurance industry, directives issued in 2006 that a minimum of N1bn capital base was expected also generated the same effect as that of the Banking sector.
Offers by Private Placement: The Director-General of the Nigerian Stock Exchange, Ndi Okereke-Onyiuke in 2008 admitted this fact in her review of the performance of the Nigerian capital market when she observed inter alia that a significant portion of funds that left the stock for private placement market are still locked-in as many of the issues have not applied to the Nigerian Stock Exchange for Listing. A number of private companies floated private placement of their shares at lower prices while they sought or intended to seek quotation of their share at higher values on the Nigerian Stock Exchange, thus making such private placements very attractive. This lured investors to dispose off their shares in the secondary market, purchase the private placement and dispose of same immediately after their listing on the Stock Exchange at higher prices. The Nigerian capital market thus became a battleground as private companies were falling on each other through many of such offers. The regulating bodies were impotent as the investment and securities Act, 2007, does not place private companies and their private placements under their control. A number of companies that did private placement to suck liquidity from the Nigerian capital market, include: Tantalizers, Investment and Allied Plc, Globe Reinsurance Plc, Multiverse Ltd, Swap Technologies Ltd, Starcomms Ltd, Equity Assurance Plc, Oasis Assurance Plc, HIS Ltd, Indomie Nigeria Ltd, Tetrazzini Ltd, Food

Concepts Ltd, Geolfluied Ltd, Goldlink Insurance Ltd, Universal Insurance Ltd, Chams Plc, Fidson Health Care Plc, Reltel Wireless Ltd, MTN Ltd, among others. Thus so much liquidity was sucked from the Nigerian capital market in favour of private placements of private companies, many of which remain unquoted till date, leading to the lack of funds to trade in the secondary capital market.

Unwholesome practices: It is worth recalling that as the market revelled in boom, unwholesome practices among which include deceptive price manipulation by banks in subtle agreement with stockbrokers, and sharp practices of some investors, stirred imbalance in the system. Stock prices were greatly overvalued and investors were hoodwinked by the deceptive allurements for profits. This trend was further accentuated and sustained by margin facilities from the newly capitalized banks. Thus with the withdrawal of margin facilities came a reversal to bearish market sometime around April 2008. The bearish trend deepened for seven months with a temporary market bottom out in November, when market capitalization hit N7.4 trillion. As at December 2008, the market has lost over N6 trillion in total cumulative losses.

Exit of foreign portfolio investors: The recession in the United States, Europe and Asia is a paramount setback for the Nigerian capital market. Each of these countries is strongly attempting to make up for their deficits. Besides, the unprecedented losses sustained have greatly threatened some hedge fund managers' confidence in the Nigerian capital market. Since the underlying motive for investments include profit, or at least in the minimum, breaking even, huge losses only erode investor confidence. And in situations where some other countries capital markets were attractive and pose considerably less risk, the NSE needs a far more reaching technique to attract foreign investors on one part, and ensure that their confidence is met. The crisis of confidence has been ravaging the Nigerian capital market up to date.

Availability of Alternative Investments: Another factor that is of great threat to the stock market is the availability of other reliable investment frontiers. For instance, investors are being propelled by the huge profits being derived from the real estate market. The current demand for housing units in the Nigerian market indicates a point for profit taking assurance. The situation where rents are measured in foreign currencies, and payments in two years upfront, coupled with other charges, are alluring.

Short-term Speculative Activities: Between 2006 and 2008 the Nigerian capital market was seen by investors as a market for short term investments. Investors embarked on unguarded short term treasure hunting spree from the capital market. At a time, many individual investors abandoned or sidelined their core lines of business and concentrated on short-term speculative activities of buying and selling equity securities in Nigerian capital market. Even banks were financing about 65% of the Nigerian capital market transactions through margin facilities granted to investors and stock broking firms. Many banks abandoned or sidelined their core operation of providing credit to the real sector in favour of "playing" the capital market for short-term speculative activities that seemed to pay off up to March 2008 before the cancer that afflicted the market set in. It is estimated that the total exposure of banks to the capital market in terms of trapped funds was in excess of N1 trillion. Following the trapped banks' funds, the banks became violent on the investors and stock broking firms who borrowed from them for share acquisition. This approach brought suicidal pressure to bear on these borrowers, compelling them to sell their shares at any price just to have a moment of respite. This further increased the supply of shares at ridiculous prices, leading to greater market crash. Thus, the capital market became overheated with so much speculative activities of banks and other institutional investors that by the time the market caved in, it became very difficult for them to exit through the narrow door as there were no large numbers of financially buoyant investors to buy the stocks from them.

Borrowings from foreign banks: The Nigerian banks usually get short-term loans from foreign banks. They come home, sell the foreign currency at the auction market or lend it to traders in consumables at exorbitant interest rates and make good profit. With this, they declare huge profit every day. The value of their shares goes up accordingly. With the emergence of global financial crisis the credit lines dried up with the related profit hence the low value of their shares. The value of the shares of the rest 40% members of the Stock Exchange which are non-financial institutions and do not trade in this manner remains relatively stable compared to gyrations in the prices of banking stocks. This is an eye opener that it is time our financial institutions learn to have a home-based capital market that will not be vulnerable to any adverse fluctuation in foreign financial markets. They should not let their operation depend heavily on foreign borrowing.

The Consequences

Collaborating with the views of Olisaemeka (2009) on the negative impacts of the Nigerian capital market meltdown on investment horizon, the following are some of the negative effects of the downturn.

Loss of confidence in the Nigeria economy: There was loss of confidence in the Nigeria economy, as many investors prefer to convert their naira to foreign currencies, especially the dollar and held them through their domiciliary accounts or in their personal piggy-banks. This in part encouraged worsening exchange rate against the naira and starved the stock market of transaction funds.

Credit crunch in the economy: The market meltdown fuelled credit crunch in the economy as banks do not have enough funds to lend to the productive sectors leading to high interest rate. Given the high interest rate, cost of fund to manufacturers became very significant component of production cost, thus translating to higher prices of goods and services thereby causing high inflation. Thus, the productive sectors are crowded out of credit facilities and their share prices are crumbling.

Loss of confidence on shares as collateral: The meltdown led to the loss of confidence of banks and other lenders on shares as collateral for loan facilities. Shares which were before the crisis readily accepted by banks as collateral are now shunned by them. The few of them that dare to touch them for this purpose only do so at ridiculous discounts as some of them seek up to 300% cover.

Loss of depositors' funds with the banks: The market meltdown led to loss of shareholders' and depositors funds with the banks and significantly increased the quantum of banks non-performing assets. The market meltdown also induced massive withdrawal of foreign investors from the Nigerian financial system, dampening the remaining source of hope for possible market recovery.

Depletion of Pension Fund Asset: Following the passage of the Pension Reform Act, 2004, Pension assets are now privately managed. Under the Act, every employer, whether in the private or in the public sector is obligated to deduct 7.5% of every employees/emolument, then add another 7.5% totalling 15%. This is remitted on monthly basis to a Pension Fund Administrator (PFA) under the superintendence of a Pension Fund Custodian (PFC). The PFAs manage the pension assets by investing in a variety of instruments including equities. Currently there is massive reduction in the value of investment assets held by the PFAs and PFCs as a result of the capital market meltdown. The Pension Act of 2004 makes it mandatory for pension fund managers to invest 35 percent of the funds in the NSE. However, the terms of the Act is stiff as only 25 of the more than 300 companies listed in the NSE are qualified to attract pension fund. Based on this limitation, it will be of little or very much insignificant effect for these pension fund manager to cause a reasonable up-shake to herald a market boom in 2009.

Financial Incapacity of Stockbrokers: The Stockbrokers are financially incapacitated and unable to settle their clients for securities sold. With the meltdown, many stock broking firms cannot discharge their obligation to their clients. Proceed of shares sold by these stockbrokers for their clients are greedily seized by the banks to which the stock broking firms owe billions of naira through margin accounts. Incoming credits or debits arising from sale of securities or purchase of securities can only be settled through the appointed settlement banks. This gives the banks the opportunities to get at stockbrokers. Thus many stock broking firms rejects sale order as they know that the banks will seize the credits, leading them to contend with their clients.

Loss of Confidence on the regulatory bodies – There has been massive erosion of investors' confidence on the regulatory bodies of the stock market such as the Nigeria Stock Exchange as well as the Securities and Exchange Commission whose regulatory impotence has been largely blamed for the present woes of the capital market and whose principal officers appears to have exhausted all they know and all they can offer to change the fortunes of the market. Many market analysts believe that they ought to have thrown in the towel instead of trying to stay put and superintend the "funeral mass" of the market as they have nothing again to offer.

Unstable Macro-Economic Environment: The macroeconomic environment in Nigeria has remained unstable and unpredictable for several years arising from the incessant and often violent changes in the machinery of government of the economy. The consequences of such unstable economic environment have been high inflation, foreign exchange rate depreciation, loss in the value of returns on investment among others.

Poor System of Supervision and regulation: The system of prudential regulation and supervision remains rather poor, such that the freedom of financial information is often impeded. In the Nigeria capital market, complaints from operators have revolved around manipulation of share prices by stockbrokers, share purchase without fund to back it up, share dealing without client's mandate, the appropriation of part or all the proceeds of issues by issuing houses to offset bridging loans, non-remittance of share proceeds to the selling clients, buy-hold syndrome. Nigerians still operate their investment portfolios like real estate as something for keeps for posterity.

The Panacea

Means of Correction: In the third quarter of 2008, the turmoil in the capital market attracted several policy reviews and enforcement of regulations, principally for the control of the continuous market decline. Disturbed by the tumbling prices of stocks and bonds, government and key stakeholders sought ways to halt investors' dwindling fortunes in the equities market. In a meeting on August 28, in Abuja, the Federal Government and Stakeholders in the Nigerian capital market resolved to adopt measures to checkmate the bearish trend in the market. The Central Bank of Nigeria, Securities and Exchange Commission (SEC) and the Nigeria Stock Exchange took strategic decisions. For SEC, it reduced its fees by 50 percent, while rules on share buyback were released. However, a 20 percent limit was placed on the total shares that a public company could buy back in line with the provision of CAMA. Next, it went further to release the guidelines for market makers on the Nigerian stock exchange. On the part of the CBN, progressive steps for liquidity ease included reduction of Monetary Policy Rate (MPR) from 10.2 percent to 9.75 percent; reduction of Cash Reserve Requirement (CRR) from 4 percent to 2 percent; reduction of liquidity ratio from 40 percent to 30 percent; approval of report of transactions against eligible securities for 90 days, 180 days and 360 days; CBN to buy and sell securities through the two-way quotes; and directive to banks to restructure margin loans up to 2009. The NSE on its part emphasized strict enforcement of NSE's listing requirements with zero tolerance for infraction. It also took administrative actions to stem the rate of new listings until the market stabilize. Furthermore, the NSE reviewed its policy on share price movements by placing a one percent benchmark on share price depreciation in the exchange. It was considered as part of the measures put by the federal government's committee to halt the financial meltdown in the market. Under the new dispensation share price could appreciate by a maximum of five percent but could only depreciate by a maximum of one percent. The mechanism served the intention of slowing down share price depreciation.

The direct implications of all these decisions are as follows. First, the Central Bank's liquidity provision is to avail investors of opportunities in acquiring stocks with strong growth potential but largely under-priced. Second, the various cuts in fees and transaction costs both by SEC and CBN were supposed to induce various investors and stakeholders to take more risks with minimum cost of capital. Third, selling pressure by most stock broking firms at lower prices in order to payback their loan facilities would be of no use due to the tenure restructuring of their facilities. Fourth, with such regulations imposed, including the delisting of moribund companies, several non-functional companies will be removed from the listed stocks. Fifth, with the strict control of stocks listing in the stock exchange, funds can now be channelled from the primary market to the secondary market. And finally, it is expected that investors' confidence in the market will be restored as the market gradually rebounds.

Conclusions

It is mind puzzling that barely two years ago(2006-2008), Nigeria was the main investment destination in Africa, and then suddenly, we are experiencing a shortage of liquidity, flight of foreign funds, deteriorating capital market, depleting reserves and a depreciating currency. The public's perception over the ongoing financial crisis is that it was unforeseen and further aggravated by the global crisis. Over the years, there have been countless economic theories, aimed at explaining the causes and signs of an impending financial crisis. The truth is, when studied, all crises emit warning signs, which are either overlooked by supervisory bodies (Central Bank of Nigeria, Securities and Exchange Commission and the Nigerian Stock Exchange), or tackled too late.

In the aftermath of bank consolidation, Nigeria experienced a high influx of Foreign Direct Investment (from $4,978m in 2005 to $12,454m in 2007), coupled with increased oil revenues (price per barrel hit a high of $147.27 in July 2008, growing the reserves to $64.85bn in August 2008). These indicated that Nigeria was indeed ready and capable of absorbing large foreign investments. The hype was also shared by banks and investors domestically. As a result of recapitalization, the banks were able to be more creative and offer more products to customers. While this signalled the strength and liquidity of the banks, the process of financial innovation shifted the system as a whole, towards the verge of collapse. It is important to point out that the problem is not strictly confined to the financial

products, but the regulations guiding the use of these products. About the same period of economic expansion, the Nigerian capital market began to thrive. The market-experienced record listing of IPO's and capitalization rocketed (from N4trn in 2006, to a peak of N12.64trn in March, 2008). In the bid to tap into this money-well, banks became more creative and developed, which enabled them to tap into this risk. The term "Margin Finance Facility" (MFF) is one most of us are now familiar with. The banks got caught up in the frenzy, disbursing MFF's with insufficient collateral and little or no customer credit information. Like Minsky's(1974) theory articulates, a state of euphoria emerged between 2006 and 2008; the level of loans disbursed by the now stronger banks, amounted to record figures. These loans were disbursed on the basis that the customers expected profits (stock value) would appreciate and refinancing could be obtained to service their debt. The M**insky's(1974)** "Financial Instability Hypothesis"- Ponzi Finance, stipulates a form of finance, in which new debts are used to finance old debts (rob-Peter-pay-Paul, principle).

According to this theory, it is "the deterioration in the quality of the debt over the life of the boom that creates the inevitability of a bust". In other words, "stability is paradoxically destabilizing: good times create a state of euphoria, encouraging experimentation and excessive risk taking, resulting in a bust". He further argues that, "financial innovation leads to a high level of financial instability and fragility", paving the way for a crisis. The theory entails three categories of debt structures, which every reasonably advanced financial system goes through, in tandem with the business cycle. **The first is Hedge Finance**, which is experienced after a recession, where banks have lost money and thus, lend cautiously (loans equals cash flow). As the economy grows, banks appetite for risk increases and they engage in riskier lending. This is referred to as ***Speculative Finance.*** The banks lend on the assumption that customers asset value (stocks) appreciate and from this, able to either repay their loans or refinance. This leads to the final stage before a crisis, referred to as ***Ponzi Finance***, where new debt is obtained to settle old debts. At this point, large amount of risky debts has been absorbed by the economy and the system become vulnerable to a shock in the banking system. In such a scenario, banks identify the risk, and stop issuing loan and as a result, customers will either have to refinance or sell assets to settle debt. The problem is, the more assets sold, prices begin to drop, up to a point where debt is greater than asset value and defaults become inevitable. This is exactly what happened in Nigeria.

The rapid growth of the capital market which was fuelled by debt, structured by banks, created a fragile financial system. The highly leveraged market became susceptible to a collapse in the event of a liquidity crunch, which later occurred. There is still a bit of uncertainty as to why the market capitalization dipped in June, 2008 to N10trn. Some argue that it is as a result of the global financial crisis, which caused a flight of foreign funds from the market. Whatever the conclusion may be, it is certain that, due to the exposure of some banks to the declining assets and announcements by CBN and SEC on new regulations, a panic developed, trust diminished and banks began to hoard money. At this point, it became impossible for borrowers to obtain fresh loans or refinancing. This led to an asset (stock) sell-off to service existing debt, which resulted in sharp declines in stock prices and inevitably, defaults. This is sort of a vicious circle.

The validity of the theory is evident by the financial crisis contagion, which started in the US and handicapped the global financial systems. The US crisis did not happen overnight; the problem started in the 1970's, when Alan Greenspan was still the chairman of the US Federal Reserve Board. In a bid to counter inflation and re-energise the US economy, Greenspan resorted to monetarist strategies, which effectively squeezed money out of the system. In an attempt to create credit, financial innovation surfaced and US firms began to use assets such as commercial papers as collateral, to securitize. The banks soon took advantage of this and became more innovative, developing products such as Collaterised Debt Obligations (CDO's) and Assets Backed Securities (ABS). The US Securities and Exchange Commission (SEC) failed to identify the threat and allowed securitized products to grow. It was the decline in the quality of these CDO's underlying assets (mortgaged-houses), which sparked the current credit crunch in the US and Europe, with the effects being felt globally. It is a known fact that any bubble will bust, but the effects of the bust were enhanced by the failure of the financial regulators to monitor and regulate the market.

Similarly, the Nigerian economy is in desperate need of a lifeline. The foreign exchange market has gone belly-up, the stock market has lost more than half its value (from a peak of N12.64trn in March 2008, to a low of N4.6trn in March 2009) and the banking sector is in a desperate state. The authorities are partly to blame for the current crisis, which according to the theory was unavoidable. It is simply a case of by how much they could have reduced the length and severity of the crisis.

Take a minute to think and absorb the fact that all economies with a reasonably developed banking sector and capital market, has at some point experienced a crisis. If carefully observed, one will notice that after a recession, banks

become more cautious in lending (hedge finance), as seen in Japan after the market crash in the early 90's. As the economy begins to grow, the risk appetite of banks also grows and they begin to lend out to riskier customers (Speculative finance, which leads to Ponzi finance).

This is precisely what happened in Nigeria. Following a long period of military rule and unhealthy financial institutions, the banks recapitalized, the economy grew and banks disbursed loans recklessly to borrowers who previously had no access to such credit, fuelling the capital market expansion. This is where the authorities failed. The CBN and SEC could have reduced the effects of the inevitable bust, by increasing bank supervision and tightening regulations. Evidence based on research on the Nigerian Inter-Bank Lending rate (NIBOR), as well as banks balance sheets, strengthens these claims. The figures suggest that; prior to capitalisation, NIBOR was relatively high, but after recapitalization, this rate dropped considerably until late 2008, when the credit crunch hit and rates began to rise (rates hit the 30% mark in February, 2009). The banks balance sheets also suggest that loan disbursement prior to recapitalization was low, compare to a 150% increase within a year of recapitalizing. This should have served as a guide to the supervisory bodies, who appear to have taken their minds off issues that mattered. The Nigerian Stock Exchange (NSE) is also to blame, as they should have carried out adequate research on the major funding sources of the stock market. It is a known fact that borrowed money, invested in stocks is averagely short-term and is vulnerable to shocks in the banking system. This crisis should serve as a lesson to the CBN, NSE and SEC, in understanding that a bust cannot be avoided, but the effects can be mitigated, with tighter controls and closer supervision.

Finally, the current meltdown of the Nigerian capital market has provided excellent opportunities for both local and foreign investors to grab the shares at rock-bottom prices with the greed of a hungry lion. There appears to be no better time to buy the shares in the Nigerian capital market than now. The fundamental of the Nigerian capital market are still very strong-high earnings per share, high dividends per share, high earning yields, high dividend yields, good bonuses and low price-earnings ratios. With the complete internationalization of the Nigerian capital market and the planned demutualization of the Nigerian Stock Exchange, foreign investors can acquire up to 100% of Nigeria companies and exercise full control. It is believed that the acquisition opportunities offered to investors now by the current capital market meltdown in Nigerian can only be exploited now for bountiful future gain.

References

Agrawal, A and Tandon, K. (1994), "Anomalies or Illusions?'' Evidence from Stock Markets in Eighteen Countries", *Journal of International Money and Finance,* Vol. 13, 83-106.

Ariel, R. A. (1987) "A monthly Effect in Stock Return", *Journal of Financial Economics* Vol. 18, 161-174

Ball, R. J. and Brown, P. (1968), 'An Empirical Evaluation of Accounting Income Numbers' *Journal of Accounting Research,* vol.16, 159-178.

Banz, R. (1981), "The Relationship between Return and Market Value of Common Stock" *Journal of Financial Economics,* March, 3 –18.

Basu, Sanjoy (1977), "Investment Performance of Common Stocks in Relation to their Price-Earnings Ratios: A Test of the Efficient Market Hypothesis," *Journal of Finance* 32, 663-82.

Bell, E. B. (1974) "The Relation of the Structure of Common Stock prices to Historical Expenditional and Industrial Variables", The *Journal of Finance,* Vol. XXIX (March0 No.1, 187-215.

Bhardwaj. R.K., and Brooks, L.D. (1992), "The January Anomaly: Effects of Low Share Price, Transaction Costs, and Bid-Ask Bias" *Journal of Finance* 47, January, 553 – 575.

Black Fischer (1986), 'Noise' *Journal of Finance,* Vol.41, 529-543.

Brennan, M. J. and Subvahmanya, A. (1995) "Investment Analysis and Adjustment of Stock Prices to Common Information", *Review of Financial Studies,* Vol.6, 799-824.

Brockman, P. and Michayluk, D. (1998), "The Persistent Holiday Effective: Addition Evidence, *Applied Economic Letters 5,* 205-209.

Buckner, A.W. (1972) "An Inter-Temporal Approach to the Optimization of Dividend Policy with Predetermined Investments", *Journal of Finance,* Vol. XXVII (June), 627-635.

Cadsby, B. and Ratner, M. (1992), 'Turn of the Month and Pre-holiday Effect on Stock Returns: Some International Evidence' *Journal of Banking and Finance,* 16, 497-509.

Campbell, J. Y. and Shiller, R. J. (1988), 'Cointegration and Tests of Present Value Models' *Journal of Political Economy,* Vol.95, 1062-1088.

Chae, J. (2005), "Trading Volume, Information Asymmetry, and Timing Information", *Journal of Finance,* Vol.60 No. 1, 413-442.

Chug, K. H., Mcluish, T. H., Wood, R. A. and Wyhowski, D. J. (1995), "Production of Information, Information Asymmetry and the bid-ask Spread: empirical Evidence from Analysis Forecasts" *Journal of Banking and Finance* Vol.19, 1025-1046.

Cochrane, J. H. (1991), "Volatility Tests and Efficient Market: A Review Essay" *Journal of Monetary Economics* Vol.27, 463-485.

Cutler, D. M., Poterba, M. and Summers, L. H. (1989), 'What moves stock prices' *Journal of portfolio Management,* Vol. 15, 4-12.

De Bondt, Werner F., and Richard H. Thaler (1985), "Does the Stock Market Overreact". *Journal of Finance,* July 793-805.

DeBondt, Werner and Thaler, Richard (1987), "Further Evidence of Investor Overreaction and Stock-Market Seasonality" *Journal of Finance,* 42, 557-81.

DeBondt, W.E.M. and R. H. Thaler (1987) "Further Evidence on Investor Overreaction and Stock Market Seasonality", *Journal of Finance,* Vol.47, 427-465.

Dechow, Patricia M., Hutton, Amy P., Sloan, Richard G. (1999), "An Empirical Assessment of the Residual Income Valuation model" *Journal of Accounting and Economics* Vol. 26, 1-34.

Fama, Eugene F. (1991) "Efficient Capital Markets *II'' Journal of Finance*, December, 1575-1617.

Fama E.F. (1970), 'Efficient Capital Markets: A Review of Theory and Empirical Work," Journal of Finance 25 (May 1970), 383 417.

Fama E.F. (1965), "The Behaviour of Stock Market Prices," *Journal of Business* 38, January, 34-105.

Fama, E. F. and French, K. R. (1995), 'Size and Book-to-market factors in earnings and returns' *Journal of Finance,* Vol. 50, 131-155.

Fama, Eugene F., Fisher, Lawrence; Jensen, Michael and Roll, Richard (1969), "The Adjustment of stock prices to new Information" *International Economic Review,* Vol.10, No.1(February), 1-21.

Fisher, R. G. (1961), "Some Factors Influencing Share Prices", *The Economic Journal,* 120.

French Kenneth R. (1980), "Risk, Return and Equilibrium", *Journal of Political Economy* 79 (January/February 1971): 30-55.

Gosnell, T. F., Keown, A. J., Pinkerton, J. M. (1996), 'The Intraday Speed of Stock Price Adjustment to Major Dividend Changes: Bid-Ask Bounce and Order Flow Imbalances' *Journal of Banking and Finance, Vol.20,* 247-266.

Grinblatt, M. and Keloharju, M. (2001), 'How Distance, Language, and Culture Influence Stockholdings and Trades' *Journal of Finance,* Vol. 56, 1053-1073.

Haris, L. and Gurel, H. (1986), 'Price and Volume Effects Associated with Changes in the S&P 500 List: New Evidence for the existence of Price Pressure' *Journal of Finance,* Vol.41, 815-829.

Harvey C.R. (1991), 'The World Price of Covariance Risk' *Journal of Finance*, vol.46, 815-829.

Haugen, Robert A. and Baker, N. L. (1996), 'Commonality in the Determinants of expected stock returns' *Journal of Financial Economics,* Vol.41, 401-439.

Haugen, Robert and Lakonishok, Josef (1989), 'The Incredible January Effect' Homewood IL: Dow Jones Irwin.

Hirshleifer, D. and Shumway, T. (2001), 'Good Day Sunshine: Stock Returns and the Wealth' SSRN Working Paper, *Journal of Finance.*

Huberman and Regeve (2001), 'Contagious Speculation and a Cure for Cancer: A non-event that made stock prices soar', *Journal of Finance,* vol.56, 387-396.

Ikpang Jacob (2008), Nigerian Capital Market in 2008 and outlook for 2009, *Thisday*, Thursday, 01 January 2009, p.10.

Jensen, M. and Ruback, R. S. (1983), 'The Market Corporate Control: The Scientific Evidence' *Journal of Financial Economics,* Vol.11, 5-50.

Kahneman, D. and Tversky, A. (1986), 'Choices, Values, and Frames' *American Psychologist,* 341-350.

Keynes John Maynards (1936), "The General Theory of Employment' London, Macmillan.

Klein A. (1986), 'The Timing and Substance of Divestiture announcements: Individual, Simultaneous and Cumulative Effects' *Journal of Finance,* vol.41, 685-696.

Lakonishok, Josef and Maberly, Edwin (1990), "The Weekend Effect: Trading Patterns of Individual and Institutional Investors", *Journal of Finance* 45, March, 231-243

LeRoy S.F. and Porter R.D. (1981), "The Present Value relation: Tests based or Implied variance bonds' *Econometrica,* Vol.49, 555-574.
Mankiv, N. G., Romer, D., Shapiro, M. D. (1985), 'An Unbiased re-examination of Stock Market Volatility' *Journal of Finance,* Vol.40, 677-687.
Marsh, T.A. and Merton, R.C. (1987), "Dividend Behaviour for aggregate Stock Markets", *Journal of Business,* Vol.60, 1-40.
McConnell, J. J. and Muscarella, C. J. (1985), "Corporate Capital expenditure decisions and the market Value of the Firm" *Journal of Financial Economics,* Vol.14, 399-422.
Olisaemeka, A.G.(2009), The Meltdown of the Nigerian capital market: causes and consequences, *ThisDay,* March 01,2009
Patell, J. and Wolfson, M. (1984), 'The Intraday Speed of Adjustment of Stock Prices to Earnings and Dividend Announcements' *Journal of Financial Economics,* Vol.13, 223-252.
Rabin, M. and Thaler, R. H. (2001), Anomalies: Risk Aversion' *Journal of Economic Perspectives,* vol.15, 219-232."
Reinganum, Mark R. (1983), 'Portfolio Strategies for Small Caps Vs Large' *Journal of Portfolio Management.* Winter 29-36
Rozett, Michael S. and Kinney, Williams R. (1976), "Capital Market Seasonality: The Case of Stock Returns" *Journal of Financial Economics* 3, 378-402.
Schwert, G.W. (1989), "Why Does Stock Volatility Change Over Time?" *Journal of Finance,* Vol-44, No.5 (December), 1115-1153.
Seyhun N. (1990), Overreaction of Fundamentals: Some Lessons From Insiders" Response to the market Crash of 1987'*Journal of Finance,* Vol.45, 1363-1388.
Seyhun N. (1986), Insiders' Profits, Cost of Trading and market Efficient' *Journal of Financial Economics,* Vol.16, 189-212.
Shiller, R.J. (1981) "Do Stock Prices Move Too Much to be Justified by Subsequent Change in Dividend?", *American Economic Review,* Vol.71, pp.421-436.
West K.D. (1988), 'Dividend Innovations and Stock Price Volatility' *Econometrica,* Vol.56, 37-61.
*** All Share Index (ASI) is a measure of the magnitude and direction of general price movement in Nigerian Stock market.

This academic article was published by The International Institute for Science, Technology and Education (IISTE). The IISTE is a pioneer in the Open Access Publishing service based in the U.S. and Europe. The aim of the institute is Accelerating Global Knowledge Sharing.

More information about the publisher can be found in the IISTE's homepage: http://www.iiste.org

CALL FOR PAPERS

The IISTE is currently hosting more than 30 peer-reviewed academic journals and collaborating with academic institutions around the world. There's no deadline for submission. **Prospective authors of IISTE journals can find the submission instruction on the following page:** http://www.iiste.org/Journals/

The IISTE editorial team promises to the review and publish all the qualified submissions in a **fast** manner. All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Printed version of the journals is also available upon request of readers and authors.

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digtial Library , NewJour, Google Scholar