European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.7, No.23, 2015

Challenges Faced by Individual Investors in the Nigerian Capital Market

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Abstract
Capital markets in Africa have been faced with a number of challenges in their bid to efficiently mobilize capital for the funding of their long-term capital projects and the Nigerian capital market is no exception. It has not been able to efficiently and effectively mobilize the funds in the hands of savers and channel same to the companies that need them for their long-term capital investment. The paper attempts to identify the challenges faced by individual investors in the course of their participation in the capital market which may be hindering the flow of funds to the market. Primary data obtained from unstructured questionnaires was analyzed using frequency distribution table and simple percentages. A number of challenges ranging from inefficiencies of capital market operators, lack of information about quoted companies, the capital market crash, paucity of investible funds, low returns on investment, and lack of transparency in the market, among others were identified. It was also clear from the responses that many individual investors are not knowledgeable about the workings of the capital market, and that more education is needed to create awareness of capital market activities. A number of suggestions were proffered for policy makers to mitigate these challenges.
Keywords: Individual investors, Challenges, Nigerian capital market

1. Introduction

Capital markets provide funds to industries and governments to meet their medium and long-term capital requirements, such as financing of fixed investments like buildings, plants and machinery. Consequently, Carmichael and Pomerleano (2002) saw capital markets as an integral part of the financial system, which mobilize long-term capital efficiently by attracting resources from a large number of savers in a cost-efficient manner and by converting the funds of short-term investors into long-term capital. Therefore the capital market plays a vital role in stimulating industrial as well as economic growth and development. In the absence of a capital market, industrial growth would be hampered as the money market which provides short-term funds is not designed to provide such funds. An efficient capital market mobilizes savings and allocates a greater proportion to those companies with the highest prospective rates of return after giving due allowance for risk. A capital market that is not sufficiently developed will fail to perform financial intermediation efficiently as it may either fall short of not receiving all potential savings from investors or divert savings away from productive investment.

The capital market is divided into two segments – the primary market is for raising funds through the issuance of new securities, while the secondary market segment provides facilities for trading in already issued securities. In the primary market the funds raised from investors go the issuing entity while in the secondary market the proceeds from the transactions go to the investors. The two levels of the market complement each other as the success of new issues depends to a large extent on the favorable response in the secondary market and also on the level of liquidity in the secondary market. The availability of a liquid secondary market is a very important aspect of the capital market. This is because investors are more willing to place their funds in the primary market if they know that holdings are easily convertible to cash. Thus the efficient functioning of a capital market is important not only to investors who supply funds and trade frequently but also to listed companies and corporations who issue their securities on the market to obtain funds.

The Nigerian capital market came into formal existence through the establishment of the Nigerian Stock Exchange (NSE) in 1961 primarily to provide the machinery for mobilizing private and public savings and making them available for productive investment through stocks and shares. The fact that the Nigerian capital market has made some modest contributions to the growth of the economy has been attested to by several authors (Ojo, 1998; Ariyo and Adelegan, 2006; Okereke-Onyiuke, 2006 and Ibru, 2009). They acknowledged that the involvement of the Nigeria Stock Exchange in the privatization exercise increased the volume of activities and thus the absorptive capacity and also that the few listed companies provide over 85% of all corporate taxes in Nigeria. Other authors like Adedipe (2006), Oluwatosin, Adekanye and Yusuf (2013) and Okonkwo, Ogwuru and Ajudua (2014) insist that the Nigerian capital market has not been able to mobilize and effectively channel substantial capital for real sector growth and development, especially when compared to the size of the economy.

The Nigerian capital market from inception has experienced a number of problems, for example, its inability to generate more securities from companies, paucity of tradable shares, the global financial crisis and more recently, the falling oil prices which have scared many foreign investors from the market. Osaze (2007) reported that as at 2007 less than 1% of the registered companies in Nigeria were quoted on the Nigerian Stock Exchange, with only 214 equities listed even though the Exchange was established in 1961. At that time Singapore had over 500 (established in 1979), Kuala Lumpur 757 (established in 1973), Hong Kong 695 (established in 1986) and Istanbul over 900 (established in 1986) – all established over 13 years after Nigeria, and all emerging economies. Today there are less than 250 listed companies on the NSE.

Individual investors in the capital market include mainly household investors. They purchase relatively small amounts of shares for their portfolios and are referred to as small or retail investors in contrast to the institutional investors which are involved in wholesale investments. They own financial assets directly in their name or indirectly in the name of funds, trusts, or corporations. They are also referred to as the ultimate investors. These investors according to Kaur and Vohra (2012), in pursuit of high returns are prepared to accept high risks. It is the collective investments made by them that can lead to the rapid economic growth in the country. Therefore policy makers cannot ignore their role in the capital mobilization process in the capital market. Therefore, it is pertinent to identify the challenges they encounter in the course of their investing in the market with the view of coming out with practical solutions. The Nigerian Stock Exchange Factbook of 2010/ 2011 puts the number of individual investors who are involved in stock market investment in the country at over 3 million in a country of over 150 million people. This is quite small considering the population of Nigeria. The country has the potential to substantially increase the number of individual investors if the right measures are put in place.

The individual investor's decision to invest in the capital market will determine the level of funds that can be mobilized in the market. The decision will also be determined by the efficient functioning of the market. An efficient capital market is characterized by low transaction costs, liquidity, timely and appropriate information and absence of unnecessary frictions. For instance, investors are more willing to invest when they know that they can easily get their cash whenever they desire to get out of the market, and this is only possible in a liquid secondary market. Also individual investors will be more willing to invest when they face minimal constraints in the course of their participation in the market.

The main participants who play one role or another in the process of funds transfer include the Stock Exchange, issuing houses, stockbrokers, share registrars, deposit money banks, institutional investors, and the Securities and Exchange Commission (SEC). Although all of these participants perform one function or another they are not located in one place. However the Stock Exchange provides the platform where all the various players in the capital market are brought together.

So far the author has not come across any study that focused on the challenges that individual investors face in the course of their investing in the Nigerian capital market. Therefore, this exploratory study sets out to identify the challenges that individual investors encounter in the Nigeria capital market. The findings will highlight those factors which may be hindering more participation of individual investors in the market, and the volume of savings that can be mobilized by the capital market, and by so doing proffer suggestions on solutions to the identified challenges. These suggestions are expected to aid policy makers and other capital market operators in the overall improvement of the functioning of the capital market so that it will be better positioned to carry out its functions and impact the economy positively.

2. Overview of the Nigerian Capital Market

Prior to independence in 1960, financial operators comprised mainly of foreign owned commercial banks that provided short-term commercial trade credits for the overseas companies with offices in Nigeria (Nwankwo, 1991).Their capital balances were invested abroad in the London Stock Exchange. Therefore, in an attempt to accelerate economic growth, the Federal Government embarked on the development of the capital market. This desire for a capital market culminated in the appointment of the Barback Committee to advise the Federal Government on the ways and means of setting up a stock market in the country. The Federal Government was encouraged to establish the capital market because it saw it as an avenue to provide local opportunities for borrowing and lending of long-term capital by the public and private sectors as well as an opportunity for foreign-based companies to offer their shares to the local investors.

The first offer of shares to the public was fulfilled in February, 1959 when the ordinary shares of the Nigerian Cement Company Limited were offered to the public (Areago, 1984). This was the first public offering in Nigeria. Two other offers were made on April 25, 1960. These were the ordinary and preference shares of John Holt (Liverpool) and Investment Company Limited and the ordinary shares of Nigerian Tobacco Limited.

The favorable report of the Barback Committee led to the establishment of the Lagos Stock Exchange in 1960, which was backed by law in 1961. The Lagos Sock Exchange was established as a self-regulatory body to among other functions, provide facilities for dealing in listed securities, overseeing the trading of these securities and ensuring fair pricing of securities. The Lagos Stock Exchange was renamed the Nigerian Stock Exchange (NSE) in 1977. The NSE now has 13 branches across Nigeria other than its world-class trading floor in Lagos.

Alile and Anao (1986) reported that trading on the NSE during the early years was extremely poor because of the low rate of capital formation at the time, the predominant lack of awareness of the mechanics of stock exchange transactions and poor communication. Buyers and sellers were mainly concentrated in the Lagos area. An evidence of the prevailing inertia of the stock market at that time is the fact that during the nine years 1962 to 1970, the Exchange handled only four (4) new issues of industrial securities. Issue of Federal Government stocks came out at the rate of one a year during the same period. The implementation of the Nigerian Enterprises Promotion Decrees of 1972 and 1977 enhanced public participation in the capital market. However this was not sufficient to propel growth of the market at a desired rate. To further aid the growth of the Nigerian capital market, Government came out with a number of reforms. Some of the reforms which aided the growth of the growth of the Nigerian capital market include the replacement of the Exchange Control Act of 1962 and the Nigerian Enterprises Promotion Act of 1980 with two investor-friendly laws, namely the Nigerian Investment Promotion Commission Act of 1995 and Foreign Exchange (Monitoring and Miscellaneous) Provision Act of 1995. These two Acts expanded the Nigerian capital market and assisted in mobilizing domestic and foreign investment capital.

The Exchange has an automated Trading System (ATS), with bids and offers now matched by stockbrokers through a network of computers. In the primary market, prices of new issues are determined by issuing houses and brokers, while in the secondary market, prices are made by stockbrokers only, through the mechanism of demand and supply of stocks. Clearing, settlement and delivery of transactions are done electronically by the Central Securities Clearing System (CSCS), which is a subsidiary of the NSE. The CSCS was incorporated in 1992 as part of the effort to make the Nigerian stock market more efficient and investor-friendly.

The market witnessed significant growth after these reforms and financial sector deregulation, albeit with occasional fluctuations. The Nigeria capital hit its peak in 2007 when it recorded a market capitalization of ₦13.29 trillion. However the growth was cut short with the global financial crisis of 2007/2008 which led to the market losing up to 70% of its value. The consequent crash of the Nigerian capital market led to the exit of many local and foreign investors from the market, many of who have continued to stay away. Although the market has since picked up, it has not been able to attain the level the growth it witnessed in 2007.

The Nigerian capital market is still faced with a number of problems. The number of listed companies is still low compared to those of the emerging markets. Also the level of liquidity is still low. It has been reported that the cost of transaction is also high relative to other emerging markets. These problems, no doubt will have serious consequences for the efficient functioning of the market and efficient mobilization of savings for productive investment.

3. Review of Related Literature

Capital markets provide the mechanism for the intermediation over the long-term between financial surplus units and financial deficit units. By this they form the channel for the flow of financial resources among the economic sectors. The extent to which the capital market can intermediate between surplus and deficit units depends on the level of development of the financial sector as well as the savings habit of the populace. .

A number of empirical studies (Levine & Zervos, 1997, 1998; Atje & Jovanovic, 1993; Rousseau & Wachtel, 2000; Beck & Levine, 2002) have shown the importance of capital market development in the growth process of the developed countries of the world. These studies showed that industries and firms located in economies with well-developed capital markets have grown faster than those located in economies with weak capital markets. The study of Demirguc-Kunt and Levine (1996) using data from 41 countries for the period 1986-2003 showed that the three most developed capital markets are in the United States, United Kingdom and in Japan. They also found that the most underdeveloped markets are in Columbia, Nigeria, Venezuela and Zimbabwe.

Savings mobilization in an economy is a critical factor for growth since the industrial sector, the engine of growth is stimulated by savings (Adenuga & Akpan, 2007) and low level of savings has been identified as a major factor affecting capital mobilization in developing countries (Acquah-Sam, 2014). The major source of funds for investment in any economy is the aggregate savings of all sectors of the economy. The other source of finance is external or savings of other economies which can come in the form of loans, grants, indirect investments and foreign direct investments. Okoye , Nwisienyi and Eze (2013) pointed out that the amount of funds available for mobilization in the capital market depends on factors such as disposable income, consumption pattern, price level, financial intermediation, market confidence and integrity. However Khamfula (2005) blames the lack of an efficiently organized capital market, as seen in many developing countries and former planned economies, as a serious obstacle in the efficient use of their savings and thus to their overall economic development.

Another challenge identified is that most underdeveloped equity markets have inadequate government regulation. They are also characterized by inefficient information gathering and dissemination firms compared to the more developed markets in developed countries (Yartey & Adjasi, 2007 and Massele, Darroux, Jonathan & Fengju 2013).. Other impediments to capital market development such as legal, regulatory and tax barriers have also been identified and Khamfula (2005) pointed out that as a result, the legal and regulatory environment lacks the required operational ingredients such as accepted standards of accounting and the disclosure of information.

Igbatayo (2011) highlighted the effects of the global financial crisis of 2008 to 2010 and pointed out that the resulting loss of confidence and financial contagion greatly limited the ability of the global capital markets, including the Nigerian capital market to mobilize funds. Okoye et al. (2013) indicated that capital mobilization has been severely limited by adverse economic environment such as poor economic infrastructures, bureaucratic bottlenecks, corruption and poor corporate governance, regulatory and supervisory frameworks. Recent reports of transactions at the Nigerian Stock Exchange indicate that investors are yet to recover from the financial crisis and this has seriously affected the ability to mobilize capital from the market. This has been further compounded by the recent drop in world oil prices and declining foreign exchange rates. Added to these is the lingering insecurity in the country as a result of terrorism and insurgency. These factors have collectively driven not only foreign investors but also local investors from the market. In general, the level of development of a capital market and how it is organized and regulated have much to do in terms of its ability to efficiently and effectively mobilize capital for economic development.

The individual investor has been identified as one of the most important links in the workings of the capital market. Meanwhile, the health and efficiency of the market are significantly influenced by the risk-return-liquidity preferences of investors (Bhole, 2004). As a result, investors will only invest when they believe that they will get adequate returns from their investment and also exit the market whenever they feel like doing so. Suman and Warner (2012) agreed and pointed out that the individual investors play an important role in the capital market because of their big share of gross savings in the country. Consequently they insisted that the capital market regulators cannot ignore the actions of the individual investors in the market. Similarly, Duncan, Forero, Mckenna, Roemer and Shandilya (2013) agreed that to be successful in the future the investment management industry must understand why investors act the way they do. Therefore this study seeks to identify the challenges that investors have been encountering in the course of their investing in the Nigerian capital market and which may be hindering further investment in the market, with a view to proffer suggestions on how these identified challenges can be mitigated so that the market will be better positioned to carry out its functions efficiently and effectively.

4. Methodology

This is an exploratory study to identify the challenges that individual investors encounter in the course of investing in the capital market which may be limiting further investment in the market. Primary data obtained from questionnaires were used to collect the information needed for the study. Being an exploratory study, the emphasis is to shed light on the challenges and problems in the course of participating in the capital market from the viewpoint of individual investors. It seeks to increase our understanding of what individual investors actually go through in the market. Consequently, an unstructured questionnaire was employed in which respondents were given leeway to express themselves freely without restrictions on the challenges they face in the capital market.

The respondents selected for the survey are individual stock investors who invest in the Nigerian capital market. Questionnaires were sent via e-mail to stockbrokers in Lagos and Abuja, for onward distribution to individual stock investors. Questionnaires were also distributed to individual investors in Jos. These towns were chosen to give a fair representation of investors in the northern and southern parts of the country. Out of the 130 questionnaires received, only 86 responded to the question. The responses were categorized, presented on a frequency table and analyzed using simple percentages.

5. Challenges Faced by Individual Investors

This paper seeks to identify the main constraints faced by individual investors in the course of their investing in the Nigerian capital market. A number of constraints were identified and so there was a need to condense them into a smaller number of headings (Table 1).

5.1 Overbearing procedures and general inefficiencies of registrars

Out of the 86 respondents who answered the question, forty-five (45) of them representing 52.3% reported having encountered one or more problems with the operations of the registrars. Major challenges identified include overbearing procedures for share certificate verification and dematerialization; untimely delivery/receipt of dividend warrants; undue delay in re-validation of dividend warrants, inability to access unclaimed dividends; general sloppiness in handling clients' enquiries by registrars; time wasting and unnecessarily making investors obtain bankers' confirmation which some believe is a way of making money for the banks to which they are affiliated, which in turn increases the cost of transaction to the investor. Some of the respondents also reported that share certificates of public offers were not issued on time which prevented them from selling their investment to take advantage of high prices and make profit. Others complained of out-dated technology and that there was too much paperwork at the registrars' offices. Investors reported that that these constraints have led to frustration in the course of their investing in the capital market and have limited further participation in the market. A number of older investors and retirees in Jos complained that irregularity of their signatures due to old age had resulted in some registrars' insistence on physical sighting of these investors which they felt was inconsiderate especially as most registrars were concentrated in Lagos and did not have branches in other parts of the country.

5.2 Inadequate information about the quoted companies

Eighteen (18) respondents representing 21% reported that lack of adequate information about the quoted companies as well as untimely release of results by companies had hindered their participation in the market. They complained that this has prevented them from making timely investment decisions and taking advantage of investment opportunities.

5.3 Global financial crisis and capital market crash

The study revealed that the global financial crisis and subsequent capital market crash has discouraged many investors from further participation in the market as the resultant economic meltdown has created an atmosphere of uncertainty. Sixteen (16) respondents representing 18.6% revealed that the capital market crash has seriously limited their participation in the market, more so, as the economic meltdown had resulted in poor performance in the quoted companies.

5.4 Paucity of investible funds

Twelve (12) respondents representing 14% reported that lack of investible funds due to low savings resulting from low salary levels as well as lack of access to loan-able funds hindered their participation in the market. They reported that inability to access loans from banks and margin facility had greatly hindered their investing in the market.

5.5 Low returns from investment

Low returns from investment were identified as another constraint to investing in the market. Eleven (11) respondents representing 12.8% reported that low investment returns had discouraged them from further participation in the market. They complained that many quoted companies were paying very low dividends or no dividends. Some respondents specifically made reference to some banks and many insurance companies which have not paid any dividends since they invested in their shares.

5.6 Lack of transparency and inadequate supervision/regulation

Lack of transparency and other corporate governance issues, inadequate supervision and regulation of the activities of both the quoted companies and the stock market were factors which eleven (11) respondents representing 12.8% reported hindered their participation in the market. They believe that there is a general lack of transparency in the operations of many of the companies, which they blamed on the lack of adequate supervision by the supervisory/regulatory authorities. Some of the respondents were of the opinion that many of the companies on being listed and obtaining funds from the public siphon or divert company profits thereby denying investors of dividends by declaring losses.

5.7 High cost of transaction

Eleven (11) respondents representing 12.8%, reported high charges on buying and selling of shares as constraining active participation in the market. They were of the opinion that the investor bears too much cost and that certain costs should be done away with. For instance a respondent, who is also a stockbroker, suggests that stamp duties were no longer serving any useful purpose and should be removed.

5.8 Insincere and dishonest stockbrokers

Miss-use of investors' funds, deliberate delay in transacting (fulfilling investors' orders) and non-remittance or delay in remitting sales proceeds were some of the issues raised by nine (9) respondents representing 10.5% as factors that are limiting their level of investment in the market. They reported that many stockbrokers are only interested in their commissions and do not give sound financial advice. Some of the respondents also pointed out that some stock broking firms employ unskilled marketers who do not understand the workings of the capital market.

5.9 Lack of understanding of capital market dynamics

Eight (8) respondents representing 9.3% admitted that they invested in the market without proper knowledge of the workings of the market. Some of the respondents called for more awareness creation by the relevant authorities to educate investors and potential investors on the workings of the capital market.

5.10 Policy summersaults

Five (5) respondents representing 5.8% reported that policy summersaults and inconsiderate pronouncements by government and policy makers about the capital market had prevented them from further investing in the market.

5.11 Share price manipulation

Five (5) respondents representing 5.8% believe that a lot of share price manipulations are being perpetrated by stockbrokers and the quoted companies. They attribute this to lack of proper regulation by regulators. Three of the respondents even believe that the capital market authorities were also involved in price manipulations. Some of the respondents believe that the high share prices of some "big companies" were unrealistic and were as a result of price manipulation. They reported that the high prices of these shares prevented them from investing in these "blue-chip" companies.

5.12 Other constraints

Other constraints identified include lack of depth in the market (few good stocks to select from), lack of adequate investor protection and large participation of foreign investors. They were of the opinion that investors are not adequately protected as many investors had lost huge sums in the market and have not obtained adequate remedy. Also, that the large number of foreign investors has greatly affected the market as they exit the market at the slightest economic downturn leading to price losses. They therefore called for more investor protection and policies to prevent share dumping by foreign investors.

6. Conclusion and Recommendations

This paper has attempted to identify the challenges faced by individual investors in the course of their participation in the Nigerian capital market. A number of challenges ranging from inefficiencies of capital market operators, lack of information about quoted companies, the capital market crash, paucity of investible funds, low returns on investment, lack of transparency and high cost of transaction in the market were the most commonly cited challenges faced by individual investors. The need to mitigate these constraints cannot be over-emphasized given the role of the individual investor as fund supplier to the market which mobilizes funds and enables companies to finance new business projects or expand existing ones. Given their role therefore, the following suggestions have been proffered to remove these constraints and encourage greater participation of individual investors (existing and potential), so that the Nigerian capital market can experience sustainable growth and development and impact more positively on the economic growth and development of the country through financing more productive sectors.

The study recommends the following:

1. There is a need to improve on information technology especially as it relates to the operations of the registrars. Procedures should be streamlined, with a lot of paperwork done away with. A greater integration of the activities of all participants in the capital market, especially between the registrars and banks is timely so as to minimize the cumbersome procedures involved in signature verification, share certificate dematerialization and re-validation of dividend warrants by the registrars. Specifically, registrars can do a direct transfer of bonus certificates and rights issue certificates of shares originally bought from the secondary market, as the shareholders already have accounts with the company registrar and only need electronic updating with the CSCS. The same can be done with lost certificates as long as the shareholder has an existing account in the register of the company. Thus all unclaimed certificates in the register, should after confirming the CSCS accounts of holders, be transferred to such CSCS accounts. Second, payment of dividends should not be limited to current accounts as is the case in some banks. Shareholders should be allowed to use their savings accounts as well. The expiry date on dividend warrant should be extended to one year or more and registrars should endeavor to send them on time.
2. To ensure greater corporate governance and non-diversion of corporate profits, the management of the Nigeria stock Exchange should be more vigilant in their supervisory and regulatory roles. Specifically, they should ensure that newly-listed companies adhere to the post-listing requirements and should make periodic visits to these companies so as to monitor their activities. The authorities should step up their regulatory role and ensure that that these companies submit their periodic financial results on a timely basis.

3. There is an urgent need to attract new listings and new investors in the market. To this end, the Securities and Exchange Commission (SEC) and NSE should as a matter of urgency, embark on more aggressive campaigns to create more awareness about the activities of the capital market. There is significant untapped potential for raising capital for investment from the capital market as has been demonstrated in the past during the bank consolidation exercise. Road shows within and outside the country should be embarked on as was the case during the bank consolidation exercise under the headship of Professor Ndi Okereke-Onyiuke (former Director-General, NSE), to promote awareness of the opportunities available in the market.. Seminars and workshops should be organized to educate SMEs that listing a quality company with good growth prospects can enable the company raise long-term for expansion and also enhance shareholders' wealth including that of the promoter. The study of capital markets should be included as a subject in the secondary school curriculum so as to instill this awareness from an early age.
4. The NSE should look into the reduction of charges on buying and selling of shares. This will go a long way in encouraging more activity in the secondary market and increasing liquidity in the market. Charges like stamp duties can be waived and withholding tax charged on dividends can be reduced to 5%.
5. There is need for stricter monitoring of stockbrokers to ensure that depositors' funds are protected. Investors should be enlightened on their rights and encouraged to seek redress where their rights have been violated.

   It is hoped that policy makers will look into these recommendations and come out with policies that will ensure that players in the market play their roles efficiently and effectively so as to remove these identified challenges for a more efficient functioning and development of the Nigerian capital market.

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Table 1. Challenges Faced by Individual Investors in the Nigerian Capital Market

S/No	Challenge	Frequency	Percent
1	Overbearing Procedures and General Inefficiencies of Registrars	45	52.3
2	Inadequate Information about Quoted Companies	18	21.0
3	Global Financial Crisis and Capital Market Crash	16	18.6
4	Paucity of Investible Funds	12	14.0
5	Low returns from Investment	11	12.8
6	Lack of Transparency and Inadequate Supervision /Regulation	11	12.8
7	High Cost of Transactions	11	12.8
8	Insincere and Dishonest Stockbrokers	9	10.0
9	Lack of Understanding of Capital Market Dynamics	8	9.3
10	Policy Summersaults	5	5.8
11	Share Price Manipulation	5	5.8

Source: Field Survey, 2014