INFLUENCE OF DOMESTIC INVESTORS ON STOCK MARKET CAPITALIZATION IN NIGERIA

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ABSTRACT

This study examined the influence of domestic investors on stock market capitalization in Nigeria. Premised on an ex-post facto research design, secondary data obtained from the Nigerian Exchange Group's Investment Reports from 2013 to 2020 for domestic investors at the aggregate level and market capitalization statistics from the Nigerian Exchange Factbook covering the period, 2013 to 2020. Domestic investors comprised domestic retail and domestic institutional investors, while market capitalization was used as stock market performance metric. The descriptive statistics was subjected to inferential analysis via the regression tool for the study data. The outcome of the study sums up that domestic retail and domestic institutional investors influence market capitalization. Therefore, the study concludes that there exists a strong relationship between domestic investors and stock market capitalization in Nigeria. On this premise, the study recommends that the Nigerian Exchange Group Ltd, as managers of the stock market, should initiate policies that would boost the level of participation of all categories of domestic investors through deliberately crafted policies that assure their confidence in the stock market as to shore up market capitalization.
Key words: Domestic investors, institutional investors, market capitalization, stock market

INTRODUCTION

A leading feature of the capitalist free market paradigm is the evolution of a formal institutional arrangement for the facilitation of proprietary rights of individuals and corporate bodies. This formalized arrangement allows for the exploitation of investment funds for economic activities that boost development aspirations of nations. Through its pull strategy, individuals and institutions with investable funds are offered various opportunities towards committing their idle funds for a reward; at the same time those with investment ideas but constrained by funds, are enabled to access funds from the pool. This structural arrangement in Nigeria operates under the platform of the Nigerian Exchange Group Ltd (NGX).

It has been recorded that the gross domestic product (GDP) and general economic well-being of a country is a function of the performance of the market for shares and its financial system (Periyasamy & Kumor, 2016). Any economy's stock market is critical in mobilizing local resources for productive investments on a global scale. Most economies consider stock market to be essential because it is the medium for the transfer and reallocation of assets among various economic entities in a country, hence, impact overall economic performance (Pilinkus, 2010).

In 2020, trading statistics obtained from the NGX's Domestic and Foreign Portfolio Investment Report revealed that a total of ₦2.168 trillion was invested in equity shares (ordinary shares) as at December 31, 2020. This is made-up of ₦618.75 billion for domestic retail investors; ₦820.14 billion for domestic institutional investors and ₦729.20 billion for foreign investors. Domestic investors accounted for ₦1.439 trillion, representing 66.37 per cent and foreign investors ₦729.20 billion, representing 33.63

per cent. In the same vein, market capitalization showed ₦172.995 billion, consisting ₦114.825 billion by domestic investors and ₦58.170 billion. From the NGX report, a discrimination of the various typologies of investors is depicted clearly, and their portions of the NGX market activities. What is obvious from the report is the existence of domestic and foreign investors and that domestic investors are mostly in the retail and institutional investor categories.

It is important to note that, in addition to macroeconomic factors, an investor's behavioural disposition influences market performance. Studies by Leon and Aprilia (2018), Obamuyi (2013), Merilkas and Prasad (2003), Baker and Haslem (1973) and Potter (1971) explored the basis for investors aligning themselves to the established theory that they are rational beings who seek to maximize personal welfare. Hence, this study is premised on the already empirically proven fact that investor choices and yield timing preferences shape stock market performance.

Prior studies show that investors influence stock market performance (see Grinblatt & Keloharju, 2000; Obamuyi, 2013; Ding & Hou, 2015; Naik & Padhi, 2015; Banumathy, 2016; Mishra & Debasish, 2017; Kelly & Tetlock 2017; Hemalatha, 2019). It therefore, becomes necessary to ascertain the influence of domestic investors on stock market capitalization in Nigeria. This will provide a fuller comprehension of the bridge between domestic investors and stock market outcomes and also support the development of appropriate and relevant literature in this study area.

Therefore, given that investment choices and yield timing preferences are investor type dependent, it presupposes that the coalesced activities of various market players determine performance outcome of stock markets. In this regard, the question of what portion of a given stock market pie is held by domestic investors needs answering. Based on the foregoing, this study seeks to address the question of what bearing does the domestic investors (retail and institutional) who exclusively buy and sell ordinary shares have on stock market capitalization using the NGX as the baseline.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Domestic Retail Investors
The investment of surplus funds in a stock market depends on individuals' risks receptiveness. Therefore, the financial choices individuals make are influenced by their outlook, behaviour and objective (Hemalatha, 2019). Domestic investors, in the context of this discourse, refer to a group of investors who buy and sell ordinary shares on the floor of the stock market. It covers domestic retail investors (DRI) and domestic institutional investors (DII).

DRI require information about financial trends in the economy, the activity of the securities market, and the specifics of the companies that make the stocks they opt to buy. Investing in limited quantities of assets for one's own account is the primary focus of domestic retail investors' behaviour. Majority of individual investors are household investors in the stock market who acquire low-priced equities in the hope of profiting from future price increases. As a result, they will avoid high-priced stocks, as they lack the volume advantage.

DRI possess investments in the form of stocks, bonds, or mutual funds, trusts, or businesses, through direct or indirect ownership. A country's strong economic progress may be attributed to the combined investments made by investors (Hemalatha, 2019). Somil (2007) found that rational investors presume that individuals make decision with hopes of maximizing self-interest. Lin (2015) states that to be an individual investor, one must be willing to put one's own money at risk in order to achieve desired financial objectives. Suman and Warner (2013) argue that individual investors strongly affect capital market performance because they account for a large amount of overall savings; a critical link in the workings of the financial markets. Kelly and Tetlock (2017) speculate that retail investors may have a competitive advantage in trading in small companies because institutional investors are more focused

and follow major equities (perhaps owing to the availability of funds, a profound understanding and financial assets mandates).

Researchers have contradictory results about the features of individual investors on stock market. For Grinblatt and Keloharju (2000) and Barber and Odean (2000), domestic retail investors are uneducated, overconfident, and risk-averse disruptors of the financial system. However, new studies reveal that they are savvy investors who provide liquidity, hence decreasing the chance of stock price collapses and stabilizing the financial system (Ding & Hou, 2015; Barrot et al., 2016).

Domestic Institutional Investors (DII)
These are institutions that invest in securities and other financial assets. DII trade in their country's equities and other assets, using pooled funds (The Economic Times, 2021). They have become an essential element of the stock market as a result of their enormous financial assets. In a way, institutional investors may sway retail investors' goals because of the large volume of money they put into and take out of a single stock. DII investments, which are more steady and less susceptible to market fluctuations than those of foreign indirect investment (FII) (sometimes known as hot money), might function as a cushion to protect stock markets (Mishra & Debasish, 2017).

A wide range of factors, including market movements, regulation of the market, the willingness to take risks, investing views and considerations of taxes, elements of culture and structures of governance, impact their asset allocation approach. Institutional investors (mutual funds, venture capital, insurance company and banks) are among the most important players in the financial markets (Naik & Padhi, 2015).

Market Capitalization
Stock exchange uses market capitalization as one of its performance metrics. Typically, it is used as an indicator of stock market size. Calculated by multiplying the stock's current price with the current number of shares traded. Economic growth and development are greatly affected by this, and its impact is expanding (Odogunde et al., 2006). When it comes to determining the relative size of companies in a certain industry, investors utilize market capitalization data. A stock's potential benefits and risks may be assessed, using this method. One of the most important market indicators is capitalization, which measures the worth of stocks and companies in general (Pavone, 2019).

Studies like those of Odogunde et al (2006), and Rad (2011) show that the macroeconomic environment has a considerable impact on market capitalization rate. In other words, stock prices reflect the country's total economic performance in terms of both endogenous and external characteristics; hence, market capitalization denotes the total value of stocks of the market. Therefore, it we hypothesize that:
Ho$_1$: Domestic retail investors do not significantly influence stock market capitalization in Nigeria.
Ho$_2$: Domestic institutional investors do not significantly influence stock market capitalization in Nigeria.

The Nigerian Stock Market
Investing in the Nigerian stock market is possible if a company has made its shares available for sale to the general public. Over-the-counter, electronic trading, and trading on the stock exchange are all part of this system. According to their established rules, regulated stock markets operate as both main (primary) and secondary markets. The conventional lending activities of financial institutions like banks are stimulated by the provision of risk capital (equity) and loan capital. To help more people own productive assets, stock markets can help people save for the long term and give them the money they need to invest in long-term projects through these instruments (Daniel, 2004).

Fresh issues are offered largely to generate extra cash for development, diversification, purchase of information technology and infrastructures (Abosede & Oseni, 2011). Shares traded in this market might be offered for subscription, right issues, sales, and private placements, among other options. A new

issue's price is established on the main market by the issuing houses and stockbrokers (Ikeobi, 2015). Long-term loans for developmental projects of government and industrial growth and modernization can be raised through primary market activities.

Osmond et al. (2014) noted that the NGX has made it easier to raise long-term capital for the economy's productive needs. NGX's secondary market is where securities that have previously been issued in the main market are purchased and sold and market forces determine asset prices (Ikeobi, 2015). As Osmond et al (2014) pointed out, this market channel is an avenue for the NGX to help investors regain liquidity and disperse their risks, while borrowers such as manufacturers, are able to keep their money.

The stock market serves as a conduit for the economy to balance its financing needs as funds are transferred from the sector that has more than needed to the sector in dare need of funds. A stock market whose stock prices rise or fall is one in which investors are optimistic or pessimistic about its future. It is an important economic institution that improves capital generation and allocation efficiency.

Theoretical Framework
This study looked at the hypothesis that explains financial literacy and stock market involvement known as the Efficient Market Hypothesis. This is a theory in financial economics which states that the valuation of assets is completely based all available information. EMH is a more general hypothesis of stock price fluctuations as proposed by Fama (1970); and backed by Patell and Wolfson (1984) and Seyhun (1990). EMH is predicated on a number of assumptions including that: there are no transaction costs; all market players have the same knowledge; everyone's expectations are the same; and everyone has the same time horizon (Appah, 2019). In summary, EMH it holds that the stock market reflects all available essential information. Investors on the EMH think that stock values are calculated utilizing all present and future intrinsic and extrinsic factors.

Domestic Investors and Stock Market Capitalization
Some empirical studies on domestic investors and stock market capitalization have been carried out over the years. Some of such works were reviewed so as to have a good baseline for the current research. Ogbebor et al. (2020) studied individual investors' expectations and stock market behaviour with a focus on Nigeria's stock market. The study reported that investors significantly influence Nigeria's stock market behaviour and that investors placed a high value on aspects such as foreign investment, inflation, product variety, and board of directors of firms listed in Nigeria.

Anchoring on planned behaviour theory (Ajzen, 1987) which emphasizes the importance of people making rational decisions to carry out specified activities based on available data, Ali et al. (2019) studied investor sentiment and the stock market capitalization in Pakistan. The study used data from the Karachi Stock Exchange from 1972 to 2014. The study the study found that investor mood impact market capitalization in Pakistan. Also, Hemalatha (2019) highlighted factors that influence individuals' decision to invest in Chennai City; and found that many variables affect individuals' decision to invest, these include demographic profiles (gender, age, employment, internet use), and level of computer skills.

Leon and Aprilia (2018) looked at how Chinese investors make investment choices depending on their demographics. The study analysed the predictability of decision-making behaviours by evaluating demographic parameters of 9,000 individual investors in China. The study found that demographic characteristics directly affect decision-making behaviours and that financial institutions may construct early behavioural prediction models to fill in the data gaps when it comes to investor behaviour. Similarly, Mak and Ip (2017) argue that individuals' investment behaviours and preferences may be predicted by financial service providers, allowing them to customize their financial investment portfolios.

Furthermore, Banumathy (2016) assessed investors' knowledge of stock market investment in India, and found that men and women differ significantly in their knowledge of investing in stock market, as do investors of various ages, educational levels, and occupations. Kim and Yi (2015) on their part looked at international versus local institutional investors in developing markets. Stock price synchronization was used as a measure of how much information is integrated into prices of share by international and local institutional investors. From 1998–2007. The study conclude that institutional investment by foreign and domestic investors have influence the introduction of company-specific information into share prices than trading by domestic institutions generally. And that the influence of short-term trading institutions, such as securitizations, on stock prices is larger than that of domestic institutions.

METHODOLOGY

This study adopted an ex-post facto research design. Quarterly secondary data generated from the NGX for Domestic Retail and Institutional Investors and Market Capitalization from 2013 to 2020 was used in the study. Market capitalization was derived from the multiplication of the current price of shares with the number of shares outstanding (shares available at any given point in time in the stock market), (The Economic Times, 2021). DRI and DII are measured by their respective annual amount of investment. The study used the Ordinary Least Square (OLS) regression to determine the strength of relationship between the variables. To determine the correlation between domestic investors and market capitalization in Nigeria, the following regression model was specified: $Y = \beta_0 + Bx + \mu_1$. This was further broken into:

$$MCAP = \beta_0 + \beta_1 DRI + \beta_2 DII + \mu_1$$

Where:
MCAP = Market Capitalization;
DRI = Domestic Retail Investors;
B= Coefficient
DII = Domestic Institutional Investors
μ_1 = Error term;
β_0 = Y intercept, the value of y when x is 0

RESULTS AND DISCUSSION

Table 1: Descriptive Statistics on Domestic Investors and Market Capitalization

	LN__MCAP_	LN__DII_	LN__DRI_
Mean	10.47551	3.704878	3.470855
Median	10.49758	4.586434	4.421378
Maximum	10.92097	5.928125	5.470336
Minimum	10.14182	0.000000	0.000000
Std. Dev.	0.170245	2.212112	2.067385
Skewness	0.090900	-1.030595	-1.048803
Kurtosis	3.110596	2.255895	2.262560
Jarque-Bera	0.060377	6.402933	6.591686
Probability	0.970263	0.040702	0.037037
Sum	335.2162	118.5561	111.0673
Sum Sq. Dev.	0.898486	151.6966	132.4966
Observations	**32**	**32**	**32**

Source: Author's Computation Using E-views 10

Table 1 shows that MCAP of NGX over the research period has a quarterly mean value of 10.47551 per cent floating between the highest 10.92097 per cent and the lowest 10.14182 percent. The standard deviation of 0.170245 per cent suggests that the series is slightly dispersed from the mean, while the kurtosis value of 3.110596 per cent reveals that the distribution is leptokurtic, with a skewness value of 0.090900 percent indicating that the distribution is positively skewed.

DRI have a mean value of 3.470855 per cent and a standard deviation of 2.067385 percent suggesting the series is not dispersed from its mean, with values floating between the highest 5.470336 per cent and the lowest 0.000000 per cent. While the kurtosis and skewness values of 2.262560 per cent and -1.048803 per cent suggest that the distribution is not leptokurtic and negatively skewed. DII have a mean value of 3.704878 per cent and a standard deviation of 2.212112 per cent suggesting the series is not dispersed from its mean with values fluctuating between a maximum of 5.928125 per cent and a minimum of 0.000000 per cent. While the kurtosis and skewness values of 2.255895 per cent and -1.030595 per cent suggest that the distribution is not leptokurtic and negatively skewed.

Table 2: Correlation Analysis of Domestic Investors and Market Capitalization

Covariance Analysis: Ordinary
Date: 01/27/23   Time: 19:49
Sample: 32
Included observations: 32

Correlation Probability	LN__MCAP_	LN__DII_	LN__DRI_
LN__MCAP_	1.000000		

LN__DII_	0.005811	1.000000	
	0.00297	-----	
LN__DRI_	0.008496	0.987802	1.000000
	0.0047	0.0000	-----

Source: Author's Computation Using E-views 10

The Pearson correlation matrix was used to criss-cross for the association between the explanatory variables and the explained variable. Accordingly, the outcomes on Table 2 reveal that a strong positive relationship exists between domestic investors (DRI and DII) and MCAP with values of 0.008496 and 0.005811 respectively. This implies that increase in the trading of shares in NGX would spark a one per cent growth in market capitalization, and vice versa.

Table 3: Regression Result of Domestic Investors and Market Capitalization

Dependent Variable: LN__MCAP_
Method: Least Squares
Date: 01/27/23   Time: 19:48
Sample: 1 32
Included observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.47338	0.061603	170.0130	0.0000
LN__DII_	0.079624	0.891760	0.089289	0.0295
LN__DRI_	0.009359	0.098184	0.095326	0.0047
R-squared	0.680347	Mean dependent var		10.47551
Adjusted R-squared	0.768595	S.D. dependent var		0.170245
S.E. of regression	0.175987	Akaike info criterion		0.547750
Sum squared resid	0.898174	Schwarz criterion		0.410337
Log likelihood	11.76400	Hannan-Quinn criter.		0.502201
F-statistic	0.005033	Durbin-Watson stat		1.409127
Prob(F-statistic)	0.000080			

Source: Author's Computation Using E-views 10

In Table 3, the co-efficient of determinant R-squared value of 0.6803 implies the dependent variable (MCAP) accounts for 68.03 percent of the variance. The independent factors DRI and DII are

responsible for the study's 31.97 per cent. This is further supported by the F-statistic value of 0.005 percent, which indicates that this model is significant at the 5%. In view of the Durbin-Watson's statistic of 1.4091 per cent, the model does not have any autocorrelation.

DRI have a computed level of significance value of 0.0047 in Table 3. This value is significant at 0.05. As a result, the null hypothesis is rejected. DRI contribute significantly to market capitalization, as shown by the P-value of 0.0047. The R^2 of 0.680347 also shows that the data agree with the model. Also the computed level of significance for DII is 0.0295. This is significant at 0.05. Therefore, the null hypothesis is rejected. The P-value of 0.0295 reveals that DII have significant influence on market capitalization. Data are in agreement with the model, as shown by a R^2 of 0.680347.

The outcome of the tested hypothesis one is that "DII have a significant influence on market capitalization." To put this into perspective, if all other factors are held constant, a 1% rise in DRI will result in a 0.0094 increase in MCAP. This result supports the findings of Somil (2007) and Summan and Warner (2013) who have noted that DRI are a vital link in the workings of the financial markets. Therefore, the amount of money DRI invests in the stock market has a positive and significant influence on the stock market. Similar outcomes were obtained in the research of Dvorak (2005).

The foregoing is indicative of the important role of domestic retail investors in the operations of the stock market. The confidence of domestic individual investors is critical to the level of market capitalization. They imply the stable base of any capital market as nationals who are often driven by citizenship convictions (a nationalistic inclination) in their actions as they have faith in their country. Therefore, both regulators and key market operators must initiate measures that would boost the level of participation of domestic retail investors as no market can jettison domestic individual investors if it seeks to deliver on its objectives.

Similarly, the outcome of the tested hypothesis two (Ho2) is that "domestic institutional investors have a significant influence on market capitalization". Holding all other factors fixed, a 1% increase in DII will result in a 0.080 increase in MCAP. Mishra and Debasish (2017) and Vo (2016) have both concluded that DII act as a "cushion" to safeguard stock markets. The funds invested by them are to stabilize the trading activities of the stock market.

Our findings agree with that of Periyasamy and Kumor (2016) and Samarakoon (2009) as investments made by institutional investors have a positive link with market capitalization of a company. Being stabilizers and most importantly very key players in the financial market (indicated by their deep pockets), their confidence level in the stock market will incentivize their foreign counterparts to participate in the in-country stock market. The behavioural inclination of DII is a great pointer to stock market capitalization as investors utilize pooled funds to trade in securities.

CONCLUSION AND RECOMMENDATIONS

The objective of the study is to determine if domestic investors do influence stock market capitalization in Nigeria. It discussed domestic retail investors and domestic institutional investors as components of domestic investors and market capitalization as a metric of stock market performance. The study deployed the least square regression technique to analyze data generated to determine the level of significance. The empirical discoveries sum-up that DRI and DII influence market capitalization. Therefore, it concludes that there exists a strong relationship between domestic investors and stock market capitalization in Nigeria, as an optimal mix of DRI and DII who have different investment motives, is germane in influencing stock market capitalization.

In view of the outcome of the study, we recommend that the NGX, as managers of the stock market, should continue to encourage all categories of domestic investors via deliberately crafted policies that assure investors' confidence in the market, to shore up the level of market capitalization. The research

has developed literature on domestic investors and stock market capitalization in Nigeria. The findings will support the activities of the Securities and Exchange Commission, the NGX, other operators in the stock market, and academic institutions. The study only considered domestic investors despite the existence of other investors and a time scope of eight years (2013 to 2020). Further study can be carried out on domestic investors and performance of listed financial firms in Nigeria.

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