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EFFECT OF INVESTMENT PORTFOLIO ON INVESTORS' WEALTH MAXIMIZATION OBJECTIVE

ADAMU USMAN YAME; & SADIQA BABALLE USMAN

Department of Business Administration and Management, Federal Polytechnic, Bauchi

ABSTRACT

The aim of this study is to analyze the behavior of investment portfolio and how it affects the wealth/returns of investment in Nigeria. The study hypothesis is on the relationship between investment portfolio and shareholders wealth maximization objective. In particular, the study evaluated how investor's wealth could rise or fall as a result of the types of investment held in a portfolio. A judgmental sampling of investors was considered necessary. Investors were thus categorized into two major groups: Individuals/Corporate investor and

Introduction

The underlying theoretical basis of diversification, capital asset pricing model (CAPM), portfolio volatility and its effect was first explored by Professor Harry Markowitz in 1952. This conceptual frame work was later given the tittle; "Modern Portfolio Theory" (Markowitz, 1952). He was awarded the noble price in 1990 on the theory and practice of portfolio diversification and the capital asset pricing model respectively.

Before the emergence of these theories, investors knew intuitively that it was smart to diversify. Markowitz was among the first to quantify risk and demonstrate quantification works to reduce risk for investors. Today, the field of investment is even more dynamic than it was only a decade ago. Events occurred rapidly that alter the intrinsic value of specific assets. The individual has so many assets from which to choose, and the amount of information available to the investors is staggering and continually growing (Chandra, 2002). The development of personal computers and the dissemination of information of information on the internet have increased individuals ability to track investment analysis.

Although decisions regarding the portfolio construction and management as a whole are certainly important, the investor primary decisions centre on the acquisition of one asset at a time. The selection of specific asset is the domain of security analysis. Security analysis consider the merits of the specific asset, while portfolio management determine effects that the individual asset has on the whole portfolio. It is impossible to know an asset effect on the portfolio as a whole without first knowing it`s characteristic. after

institutional investors. The major finding of the study is that, there is a strong and positive relationship between investment portfolio and investors wealth. It is therefore strongly recommended that investors pay particular attention to the type of investments they hold in a portfolio, as this further increase/decrease their wealth.

Keywords: Portfolio, Investment, Wealth, Investors

understanding how individuals assets are valued, investor may then construct a portfolio that will aid in the realization of his or her financial goals (Corrado, 2000).

No matter how bright the prospects, an investor should bear in mind that to invest is to take risk. Some of the hazards involve losing your capital, which might have been borrowed. It could be one`s pension or entire life savings. Unfortunately, resources available for investments are scarce, yet people look for where the can put their limited resources in order to get some reasonable return as compensations for investment made. It is important to also know that merely having the fund does not end the investment process. Investors should not only go for investment yielding high returns, or stocks making rounds on the Nigerian stock exchange as events now and then have shown that investment is not so simple but has a specific approach to it. A wise investor can always avoid the pitfalls by consulting an expert on professional grounds (Dikko, 1988).

The limitation of the investable funds available and the urge to have maximum return on its makes portfolio analysis; selection and management assume a significant place in investment appraisal. The need of an investor must be known before a stock can be recommended or selected. If an investor does not know that his or her investment objectives are, it does not make any difference what he/she buys. Many investors make bad investment decisions because they have never bothered to ask what their investment goals are. To answer that question, it is assumed that the investment goal is to maximize wealth; and maximizing wealth must be considered within the context of how much financial risk one is willing to take (Williams, 2002). "Caveat emptor" – Let the buyer beware – is an appropriate motor for investors because investing in marketable securities offers exceptional opportunities for profit as well as risks. It is an established fact that the best investment decision that an investor can make depends on the risk – return trade – off. This may not result in the greatest increase of wealth. However, a substantial amount of judgement is required to determine how much risk is acceptable for each individual. Meanwhile the expertise available for this is scarce. So many investors and financial advisers deal loosely with the concept of risk and return, therefore resulting in the use of subjective analysis in making decisions and advising their clients. At best these estimate are inaccurate; at worst they are completely wrong.

Previous research has shown that many investors and financial advisers use subjective and non-analytical criteria in making decisions and advising their clients on the type of investment portfolio to keep. Regardless of how careful and informed these investors are, the future is unknown and mistakes are bound to occur when the analytical and scientific approach of portfolio analysis, selection and management are not employed. At best these estimates are imprecise; at worst they

can be completely wrong. “If you have already doubted your money in trade, it may also make sense to take the entire position off per cent! This is a great situation to be in but not on one in who which we always find ourselves. For example positions that are constructed with LEAPS take more time to mature (depending on the type of trade). Therefore, you may not have double your money, even tout e security as moved by in your direction. Let`s say profit really kick in, you don’t want exit the entire trade because your profit potential is much higher, but at the same time, you don’t want to give up the gains you have already earned. What can you do? When I am in this situation I adjust the position so that I keep the original upside and protect my profit on the down side or even make money on the down side. One way to achieve this is to simply purchase puts against the position. You want to maximize the time value you pay for this puts, so going in the money is a good idea. The number of contracts that you would purchase is subjective and dependent on the risk profile you want”. Fontanills (2005). What boarders the researcher most is the nonchalant attitude investors display when selecting investment portfolio. Little or no attention is giving to the effect this will have on the maximization of their wealth. In some very rare cases, where complex calculations are made in portfolio selection, the effect of such portfolio on investor`s wealth maximization objective has not been given much attention.
Considering these variation, it is therefore paramount to establish a deliberate policy spelling out the effect in investment portfolio will have on investor’s wealth maximization objective, so that both present and prospective investors can make effective decisions during the selection process to enhance their wealth maximization objectives. To this end, a number of fundamental questions have been asked. These include: what factors are put into consideration when determining an investment portfolio? What effect does an investment portfolio have on the wealth of investors? These questions are at the heart of the problem of this study.
As a general objective, the study is intended to; Examine the analytical, and scientific basis for portfolio selection and to explore into the policies and procedures used in determining the combination of securities that will maximize return while reducing risk.

Literature Review

Portfolio theory

A portfolio is a combination of Assets designed to serve as a store of value (Herbert 2000). (Panay, 1999) defined it as a bundle or a combination of individual’s assets or securities. This theory provides a normative approach to the investors decision to invest in assets or securities under risk. It is based on the assumption that investors are risk averse. This implies that investor hold a well diversities portfolio, instead of investing their entire wealth in a single asset or security. If the investors holds a well-diversified portfolio, then his concern should be the expected return and the risk or the portfolio rather than individual assets or securities.
The second assumption of the portfolio theory is that return of securities are normally distributed. This means that the expected value and variance (or standard Deviation) analysis is the foundation of the portfolio decisions.
In portfolio analysis, risky investment cannot be evaluated in terms of risk return alone. There is a third characteristics that is the relationship with other projects, which must be introduced into the analysis. Correlation coefficient is used to establish the relationship between investments in

portfolio. Correlation coefficient can either be positive, negative or neutral. It is positive when the return on two investments move in the same direction, such as return to umbrella producing company and rain coat producing company (Usman, 2005).
It is neural when there is no relationship between the two investments. It is negative when the return to the two investment moves in opposite direction, like return to rain Coat Company and ice cream producing company. By selecting securities have little relation with each other, an investor is able to reduce relative risk. Thus a project which shows perfect negative correlation would reduce the business risk, thus affecting investor`s wealth either positively or negative. Portfolio theory is both a theory of diversification and efficiency. As a theory of diversification it is concerned with combing a number of assets into a portfolio, to achieve some degree of income stabilization without impairing expected return. As a theory of efficiency, it seeks to select for an investor, a portfolio that offers the highest return for a given level of risk; o the lowest level of risk for a given return. Portfolio investment selection is therefore concerned with the achievement of efficiency in an investors risk return position through a careful planned policy of diversification.

Methodology

The data used in this study comes from secondary sources. These include journals, text books, the Nigerian stock exchange fact books, daily officials listings on the stock exchange and the annual reports and financial statements of the companies

Results and Discussions

In order to answer the research question, `What effect does an investment portfolio have on the wealth maximization objective of investors? The research has been able to obtain relevant data from different investors; institutional and individual/Corporate investors.
Institutional Investors incudes; Niger insurance company Plc., prestige assurance Plc and investment bank trust company (IBTC) while individual/Corporative investors include: Unipetrol/Oando Plc, Mandarides Plc, First Bank of Nigeria Plc.

Institutional Investors

Niger Insurance Company Plc, N`(000`000)

Year	1	2	3	4	5	6	7	8	9
X	29	31	59	59	113	140	176	192	285
Y	1,302	1,442	2,000	2,804	3,574	5,295	7,182	8,248	8,248

Prestige Assurance Plc, N`(000`000)

Year	1	2	3	4	5	6	7	8	9	10
X	57	67	107	109	104	114	126	149	312	1,174
Y	221	275	332	374	423	504	604	949	490	5,175

Investment Bank Trust Company, N` (00)

Years	1	2	3	4	5	6	7	8	9	10	11
X	1,208	1,905	1,881	2,049	3,321	10, 365					
Y	13,893	21,803	23,947	31,612	39,151	130,407					

Individual /Corporate Investors:

Unipetrol /Oando Plc, N` (000`000)

Year	1	2	3	4	5	6	7	8	9	10	11
X	827	133	432	725	1,199	1,385	2,049	567	143		
Y	1,144	1,466	1,598	1,809	2,223	6,678	12,734	12,815	13,103		

Mandrides Plc N`(000)

Year	1	2	3	4	5	6	7	8
X	34,788	45,294	14,036	14,724	27,126	87,869	45,825	269,662
Y	40,596	63,362	68,667	75,126	87,785	132,806	154,694	623,036

First Bank of Nigeria Plc, N`(000`000)

Year	1	2	3	4	5	6	7	8	9	10	11
X	1	1	2	4	5	6	6	14	14	16	74
Y	63	77	102	137	194	224	290	409	384	470	2,354

From the data generated from Nigeria stock exchange fact book and financial report of various investors as shown above, it is revealed that there is a strong positive relationship/Very high correlation between investments portfolio and investors wealth. This positive relationship indicates that high score on one variable (Investment) relate to high score on the second variable (Wealth Maximization). That is to say, the higher the investment, and the higher the investor's wealth maximization.

The following findings of the study of the have been drawn from the analysis of the financial statements.

1. There is a positive correlation between investment portfolio and wealth, because an increase in investment leads to a consequent increase in investor's wealth maximization objective.
2. Diversification improves investors return on investment since a portfolio of well spread investment gives higher returns than investment that are not diversified.
3. Wealth maximization is the paramount reason for the investment portfolio
4. Investors consider the risk factors before making investment decision. They only lack appropriate statistics tools to be used in measuring risk accurately.
5. Majority of the investors aspire having efficient portfolio, and investors are of the opinion that investment portfolio has effect on investors wealth.
6. Most of the investors do not use any scientific method in determining the relationship between investments therefore, they do not have any special means of evaluating the performance of their portfolio collection. Thus arriving at an efficient portfolio is not possible in most cases.
7. Majority of the investors who are registered as stockbrokers are professionals in the field. Other investors who passes little or no knowledge about investment activities do not register with brokers for advisory services.

8. What informs investment decisions for many investors is a flow of income. This implies that wealth maximization is an important factor for investment. On the other hand, investors seem to hold their investments for an indefinite long period of time for the purpose of dividends. Only very few investors buy and resell securities when profitable.

Conclusion and Recommendation

The research study is tailored towards assessing the effect of investment portfolio on the wealth maximization objective of investors. Portfolio theory is both a theory of diversification and efficiency. As a theory diversification, it is concerned with combing number of assets into a portfolio to achieve some degree of income stability without impairing expected return. As a theory of efficiency it seek to select for an investor a portfolio that offers highest return for a given level of risk, or the lowest level for a given return. Portfolio management therefore is concerned with the achievement of efficiency in an investor's risk-return position through a carefully planned policy of diversification. The annual report of the organization under study gives the figures of total assets and return used for this study.

An in dept analysis of the concept of investment portfolio, risk return and diversification was carried out. This provides a conceptual framework, which forms the theoretical base covering the writings and opinion of others in the area under study. The portfolio theory is built around the investors seeking to construct an efficient portfolio that offers the return for a given level of risk or the least amount of risk for a given level of return. Investors take calculated risk because of the uncertainty of the future. The reward for taking the risk is the possible return on the investment/satisfaction or utility derived from it.

1. There is positive relationship between an investment portfolio and investors wealth. Therefore any increase on investment will yield a corresponding increment on investor's wealth maximization objective and any reducing investor's wealth maximization objective.
2. Diversification into various investments improves the wealth maximization objectives of portfolio holders.
3. Majority of the investors are ignorant on how best to manage their portfolio. Investments once purchased are held for an indefinite long period of time, rather than investors taking advantage of the increment in stock prices to dispose stocks when it is profitable to do so, and buy new stocks when prices are relatively low.
4. Optimal management of investment management of investment portfolio is not properly managed in Nigeria.
5. The Nigerian investors depends more on hunches (intuitive feelings) rather than scientific collation, analysis and study of factual information and data for security investment.
6. Portfolio theory has its building block, certain axioms or principles. These axioms are to be regarded as provisional assumptions whose ultimate justification comes not from their own thought or plausibility, but from the prediction and descriptive power of the conclusions to which they lend.

The following recommendations which are based on the findings of the study are hereby put forward to assist the present investors, prospective investors and interested public in making correct and efficient decisions on investments. These recommendations would also serve as guiding principle and spell out the things to avoid when involved in investment activities.

1. It has been clearly stated from the research concluded above that investment portfolio has an effect on investor's wealth maximization objective. Investors should therefore ensure that they get all information necessary to enable them arrive at efficient portfolios in order to obtain maximum return.
2. Investors are advised to consult investment analyst, professional brokers or expert who are expected to finish them with relevant information on investment, and as much as possible construct a tailor made portfolio that will fit the client best. It is also expected that such portfolio construction is constantly reviewed and monitored to make sure that it is still meeting the objectives of clients.
3. To reduce the risk of investment portfolio, the investor should make sure that securities taken are well diversified through the use of scientific method rather than depending on guesses or mere observations. There should be the practical application of portfolio formulas in order to arrive at efficient portfolios.
4. Financial institution such as the federal Ministry of Finance, Nigerian stock exchange, ventral bank of Nigeria and other financially relate institutions should make the information of investment nature available for investors to be able tom make concrete decisions.

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