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# Investment Patterns of Investors in Tanzanian Equity Market

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## Abstract
The purpose of this study is to identify the investment patterns influencing of investors and other stockholders. This current research focuses on one element of the investment decision process namely, the identification of investors' choice criteria and the impact of demographic variables on investor choice, period of investment and risk taking ability. The sample size was 100, which included 80 customers who had defaulted and 20 DSE staffs. The study used various methods to collect data from different respondents. These were interviews, questionnaires, and documentary evidence. The first part of the questionnaire measured demographic variables and the second part was a five point likert scale which was used to measure choice of investments, namely, equity shares, fixed income securities, property and gold. Mean and Z test were used to data analysis. The study has shown that personal attributes directly influence investment behavior and investment patterns. Moreover the study has also highlighted that income which may lead to a difference in disposable and investment income does not influence the type or period of investment.

## 1. Introduction

Tanzania adopted a privatization policy in 1992 after recognizing that the state enterprises were becoming unbearable burden and the government was unable to sustain them. This also includes the government intentions of encouraging wider share ownership of individual ownership to both public and private companies. The Dar es Salaam Stock Exchange, incorporated in 1996 as a company limited by guarantee without a share capital, is a nonprofit making body created to facilitate the Government implementation of the reforms and in the future to encourage wider share ownership of privatized and all the companies in Tanzania. In 2004, Uganda and Kenya were two of six African countries which were among the world's ten best performing stock markets, and in 2006 Malawi outperformed every other market in the world. (Massa, 2009). The analysis, (2) define relevant information, (3) acquire information, (40 evaluate acquired information, (5) assimilate information with prior knowledge to form judgments, (6) make a decision based on judgments, and (7) carry out the decision.

Maines and McDaniel (2000, 183-184) rely on a judgment model proposed by Hogarth (1980) to describe three steps of investment: the acquisition, evaluation, and assimilation of information. Payne, Bettman, and Johnson (1993) argue that how individuals make decisions depends on the cognitive effort required and the perceived accuracy of various strategies. All else being equal (i.e., holding accuracy constant), individuals prefer to use as little effort as necessary to make a decision. Similarly, all else being equal (i.e., holding effort constant individuals prefer using a decision, strategy that maximizes their chances of making the best decision possible.

Sujit at al. (1996) aims to take a detailed look at the stock market and the behavior of different investors groups. He investigates how the withdrawal of foreign portfolio capital in the post-election phase has affected the price and equity holding pattern of different Sensex of companies. This has helped the investors to understand the dynamics of the stock market in the post-election period. (Srivastava at el. 2007).

Payne, Bettman, and Johnson (1993) further argue that prior task knowledge and expertise in a problem domain represent two individual – level factors that significantly affect how individuals process information (Alba & Hutchinson, 1987; Chi, Glaser, & Farry (1988). Eilon describes the investment process as comprising eight stages. (1) information input; (2) analysis; (3) performance measures; (4) model; (5) strategies; (6) prediction of outcomes (on a set of alternatives); (7) choice criteria; and (8) terminating with resolution.

Empirical evidence indicates that factors such as age, education, income, wealth, and marital status pay an important role in distinguishing 1) risk tolerance among individuals (Riley and Chow, 1992; Schooley and Worden 1999), 2) investor preferences from cash dividends (Fama and French, 1992; shelfrin and Statmen, 1995; statman, 1999) 3) investor aversion to realized losses, and 4) investor confusion between good companies and good stocks (Fama and French, 1992; Shefrin and Statman, 1995). Malkiel (1996) argues that, for individuals, assessing capacity for and attitude toward risk is the key to successfully implementing an investment policy.

Riley and Chow (1992) find a positive relationship between risk tolerance and individual demographics such as education, income, and wealth levels. They also find that risk aversion decreases with age until the period five years prior to retirement, where risk aversion reverses directions and increases with age. Schooley and Worden (1999) find that investors with post-secondary educations and those who are married hold higher percentages of equity securities in their portfolios. They also find that the percentage of equity in a portfolio increases with age until retirement, and then decreases with age.

This current research focuses on one element of the investment decision process namely, the identification of investors' choice criteria and the impact of demographic variables on investor choice, period of investment and risk taking ability.

## 2. Objective of the Study

The Objective of the study is to investment patterns of investors in Tanzanian Equity market.

To identify various investment patterns that affect investor's decision.

## 3. Methodology

The study was conducted at DSM, Dar ee salaam, from December 2013 to June 2015.

The capital market investor's in DSE have been considered as the sample population. The sampling technique used is stratified random sampling.

### 3.1. Population

According to Krishna swami (2009), a population is a group of items that a sample will be drawn from the target population for the study originated from DSE's staff and investors from the year 2013 to 2015. The sample size was 100, which included 80 investors 20 DSE staff. The capital market investors in DSE have been as the sample population. The sampling technique was stratified random sampling.

### 3.2. Tools for Data Collection and Analysis

The study used various methods to collect data from respondents. Those were interviews, questionnaires and documentary evidence.

Mean and Z test were used to study whether the study. The first part of the questionnaire measured demographic variables and the second part was a five point likert scale which was used to measure choice of investments, namely, equity shares, fixed income securities, property and gold. The questionnaire also contained questions to measure risk averseness and time period of investment of investors.

Mean and Z test were used to study where the investment patterns of different demographic individual investors differed significantly or not. The Z value was calculated using the formula.

$$Z = \frac{x^1 - x^2}{S.E}$$

$$S.E^2 = \frac{\sqrt{(S.D1)^2}}{N1} + \frac{(S.D^2)^2}{N2}$$

## 4. Results and Discussion

### 4.1. Impact of Occupation

Among avenues of asset the stud considered equity, fixed income securities, property and gold. The study revealed that there was no significant difference in the investment pattern of self-employed investors and salaried investors with respect to equity investment, however there was a significant difference at. 05 level of significance with respect to investment in fixed income securities, mutual funds, property and gold between salaried and self-employed investors.

***Table 1.*** *Investment Pattern and Occupation.*

| Avenue | Mean of fixed income Investors | Mean of self employed | Z value. |
|---|---|---|---|
| Equity | 26.88 | 27.76 | 1.42 |
| Fixed income | 25.21 | 27.4 | 3.37* |
| Gold | 24.56 | 26.03 | 2.09* |
| Property | 33 | 26.1 | 4.55* |
| *Significant at 05 level of significance. | | | |

Source: Field Data

As far as risk – taking behavior was concerned salaried investors were more risk averse as compared to self – employed individuals.

***Table 2.*** *Risk Averseness.*

| Risk | Mean of Salaried | Mean of self employed |
|---|---|---|
| Risk Taking | 0.27 | 0.53 |
| Risk Averse | 0.52 | 0.5 |

Source: Field Data

Among time period for which stock was made the study found that salary employed investors invested more in short to medium time frame of investment whereas self-employed investors preferred medium to long term time frame for investment.

***Table 3.*** *Investment and Time.*

| Horizon | Mean of self employed | Mean of salaried |
|---|---|---|
| Long term | 0.35 | 0.27 |
| Medium term | 0.46 | 0.41 |
| Short term | 0.26 | 0.45 |

Source: Field Data

### 4.2. Impact of Income

As per income results showed that there was no significant difference in the preferences of low and high income individuals with regard to choice of investment avenues.

***Table 4.*** *Impact of income on Investment Decision.*

| Avenue | Mean Value of low Income investors | Mean Value of high income group | Z Scores. |
|---|---|---|---|
| Equity | 26.09 | 27.15 | 1.74 |
| Fixed income | 26.31 | 26.5 | 0.25 |
| Mutual Fund | 26.87 | 28.1 | 1.84 |
| Property | 25.23 | 25.61 | 0.54 |
| Gold | 34 | 33.21 | 0.31 |

Source: Field Data

## 5. Discussion

In achieving the investment objective there are three factors that investors look at firstly, the return generated by the investment, the risk associated with the investment and lastly the period for which the funds will be blocked due to the investment. The outcomes show that equity is the most preferred source of investment for self-employed investors and the second most important source of investment after mutual funds in case of salaried investors. This finding seems to be a reflection of two things firstly, the boom in the equity market because of which a number of investors are being attracted due to the high rate of return and secondly, that the salaried investors being more risk averse prefer the mutual fund root to invest in the market due to lower risk as associated to the direct investment approach.

The study also shows that both salaried and self-employed investors do not differ in their preference for equity as a source of investment. This result in the current booming equity market appears reasonable. There is a significant difference in both categories regarding.

Fixed income securities, property and gold with a large preference for gold and fixed income securities among salaried investors. There are two reason for these findings firstly, the level of risk perception in fixed income securities is low and as Table 3 shows salaried employees are more risk averse and therefore, they prefer a lower return lower risk instrument. Secondly the score of salaried employees in their preference for gold is the highest compared to all other investment avenues. Gold is usually accumulated as a hedge against inflation rather than its high return value. Therefore, self- employed individuals who are high risk takers rather than risk hedgers have a lower preference for gold as compared to salaried teams.

The study also highlights that salaried stockholders have short term saving horizon as compared to self – employed persons who have a longer time horizon for investment Clients with the most aggressive goals had longer evaluation periods. But the distinctions are less apparent in the middle range. This study therefore supports the results hat self-employed investors having more conservative goals would therefore prefer shorter time frame for investment as compared to self-employed individuals who being risk taker will have longer time frames of investment.

Other studies have shown that personal characteristics like interests, skills and competencies effect individual financial management behavior, e.g. investment choices.

Competencies are underlying individual characteristics that result in effective or successful performance (boytzis, 1982, Spencer and Spencer, 1993). Competencies are often seen as observable personal characteristics, and are influenced by attitudes, motivations, and personal characteristics (Van Beirendocnk, 2000). Hence, the orientation toward finances construct will be different from money attitudes and money beliefs for which extensive research already exists (Medina, Saegert, and Gresham, 1996). As self-employed individuals usually have a greater risk taking ability as well as a higher finance may make them invest in a different portfolio and for a longer time frame as compared to salaried employees.

The lack of difference in different class of investors on the basis of income shows that having income may not necessarily lead to risk taking behavior and therefore the attitude and risk bearing nature seems to have a greater bearing on the selection of investment avenues.

## 6. Conclusion

Among the Other factors like price of the share, brand name of the company, financial stability of the company, quality of management decisions, settlement procedures, payment facility etc. The results show that 48 percent of investors give more importance to Brand name of the company in Tanzanian equity market.

The study has highlighted the impact of type of employment on investment selection of individual investors and found that self-employed investors do show preference for more risky securities and have a longer time horizon of investment as compared to salaried investors. This has important implications as the study has shown that personal attributes directly influence investment behavior. Moreover the study has also highlighted that income which may lead to a variance in disposable and investment income does not impact the type or period of investment.

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