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Does Nigerian Stock Market 'Efficiently' Reflect Fundamental Values?

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About the Author

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Puzzles: Nigerian Stock Market and Information

In recent times the Nigerian capital market has been recording consistent strong growth and has joined the global league of top 10 markets with best returns to investors. Reasons for this include the massive funds availability following the recapitalization and consolidation of the banking sub-sector as well as increasing awareness of the high returns that the market has been offering to investors. The heightened market upsides, which is largely a consequence of banking sub-sector recapitalization-induced and liquidity-driven demand pressure provided some alternative to keeping money in commercial banks where the interest rates (returns) are usually much lower. Another view is that the bullish trend has been sustained largely by peer bandwagon effect and thus little consideration is given to fundamental issues in the market. To this latter group, the growth in the market is just a bubble that would simply bust at the appropriate time because the growth cannot be justified by fundamental values that should ordinarily affect the market. However current fundamental values need not be

Table 1: Fundamental Results and Share Prices of Selected Stocks

Name	Period	Date	% Change	Div	Bonus	Result Date	One- Month Post Result Change in Price
Dangote Sugar Plc	Final	31/12/07	28.93%	0.5	1 for 5	17/03/08	-25%
First Bank of Nig. Plc	1st Quarter	30/06/07	29.55%			1/2/08	17%
Chevron Oil Nigeria Plc	Final	31/12/07	48.85%	7.5		25/04/08	0%
UTC Nigeria Plc	Final	31/12/07	-28.30%		1 for 10	25/04/08	5%
Skye Bank Plc	1st Quarter	31/12/07	241.46%			10/4/08	2%
Bank PHB Plc	Half Year	31/12/07	316.26%			7/4/08	0.3%

Source: Nigerian Stock Exchange

the only basic determinants of market performance as expectations of future performance, which in turn are based both on current and future expected fundamental indicators, is a much stronger factor. But the question has remained whether these fundamental value based expectations are valid and can be justified by the existence of these potential lead indicators. Sometimes, this relationship appears to be non-existent, especially in the Nigerian market, and thus gives credence to the notion that the Nigerian capital market is heavily insulated from the developments that should ordinarily affect its performance. This is a huge puzzle and implies that the market is largely unpredictable based on the fundamental values beyond known financial performance, which in themselves alone do not alter the market significantly. Thus when a downward trend is generally expected, the prices go up and vice versa. This appears to be the opposite of what could be the case in developed markets. Examples include Dangote Sugar refinery plc whose share price was going down after posting a good final year performance with dividend and scrip issues. Table 1 below presents the results of some companies and the resulting performance of their shares.

Some analysts had expected the shares of companies like Dangote, Chevron, Skye Bank, and bank PHB to react in tandem or in some fair proportion to post result release and since that did not happen exactly as they expected, the conclusion is that the market does not respond to information or rather to fundamental values of the company. This notion is wrong and on the contrary, the Nigerian market like all other markets in the world react with almost same speed, in relative terms, to fundamentals, depending on the peculiarities of the market. This fallacious belief hinges on jaundiced understanding of the market process based on many textbook notions of efficient markets, thus ignoring the entrepreneurial, rivalry and discovery process elements, which underscore every market.

Information May Not Be Key

The forces that traditionally orchestrate or is expected to cause price changes include (a) the available information (b) uncertainty (c) psychological factors such as fear and greed as well as (d) supply and demand factors. Although these factors are considered in isolation, in actuality they all feed into either the demand or supply sides and are processed by those who trade along the technical and fundamental lines of analyses. Fundamental analyses, focus on external events that affect the market such as the financial performance of the company, or events that affect the fundamental value of the company. The analysis of historical pattern of price movements on the other hand is the technical analysis. The fact that investors/traders utilize their understanding of the potential consequences of an event on a company's performance as well as historical pattern of the market based on experience and knowledge means that traders rarely take positions in the stock market without some reasonably informed opinion about the direction of the market. The signal required depends on the chosen combination of guides - whether technical or fundamental or a combination of both - for choice-making.

Standard approach is always inclined to fundamental values as underscoring movement in prices. Some of the company-specific fundamentals that bear on price movements are board changes, management changes, new asset creation, dividends, good financial performance etc. Non company-specific fundamental values can comprise such factors as new policies of government, inflation, new regulations, money supply, industry competition, uncontrollable natural or environmental factors, industrial actions etc. The list is not in any way exhaustive but presents a picture of the various factors that can orchestrate changes within the market. There is also lots of evidence to show that the Nigerian market reacts to fundamental values. For example a combination of the percentage growth rates of market capitalization in nominal and real terms confirms the value destruction and macroeconomic depression of the early 1980s – the era of economic crash. It also reconfirmed the recession of 1987 and puts a question mark on the real growth of output of 1988. 1987 was the year of effective implementation of the structural adjustment programme. The years were characterized by a resumption in monetary expansion to finance imports in the face of declines in oil production and foreign exchange reserves (44% decline in 1988 from 1987 to US$651 million) with attendant inflation which rose from in 5.7% (1986), 11.3% (1987) to 54.5% (1988) which was the highest ever recorded inflation rate since Nigeria's independence in 1960, accordingly the exchange rate of the naira to US$1.00 increased by 130% from US$1.75 (1986) to US$4.02 (1987). In trying to enhance the efficacy of this standard position, the regulatory authorities have also made it mandatory for companies that are quoted to publish their audited financial statement and make other necessary disclosures to enable the investor make informed decisions concerning the performance or general current or future investment worthiness of the companies. Usually this information are more effective in causing changes in the market when they come as rumors than when they become readily available piece of news in the hands of the public. Thus the rumors of possible dividend payouts or non-pay out drives a companies share price up or down depending on how the information is utilized by those who receive them. So will it be when the reported profit results show fantastic performance. This is replete in the Nigerian market albeit narrowly.

For instance during summer holidays abroad or festivities such as Christmas/new year, Eildel malud or Fitri as the case may be, many investors supply part of their stockholdings in order to have income for the special seasons. In many instances, this induces glut and cause the market either to fall or stagnate. Same is equally applicable during periods like January or September when students are going back to school. School fees are to be paid. Holders of stocks simply offload some or all of their stocks in order to meet the monetary demands. Generally, these provide justifications for the behaviour of the market in particular seasons. Yet it does not indicate that this pattern will continue at all times. Many factors can alter the path of its consistent occurrence. However, what is important is that it provides some experiential threshold for investors who know how best to make use of that knowledge for maximizing possible returns.

In many developed markets, the role of fundamental values in market movements is tremendous yet there was no fundamental economic news which was coincident with the dramatic stock market movements and eventual crash of October 19, 987 in which the he Dow lost 22.6% of its value or $500 billion dollars. Generally, it appears as if information rarely plays serious roles in Nigerian markets. Between 2006 and 2007, the Nigerian socio-political environment was heated up by the alleged third term plot of the former president of the country. This happened for months and threatened the very fabrics of Nigeria's political stability, but share prices were racing to the peak. The market was literally 'performing' to the satisfaction of investors. This implied that the potential consequences on company performance are not considered important for investment decision-making. Figure 1 presents an upwardly moving All-Share Index during this period. Similarly, even the share prices of petroleum oil companies were performing positively in spite of the blowing up of oil installations in the Niger Delta as well as the importation of adulterated fuel. Share prices of petroleum companies continued to race upwards in the face of several weeks of announcements and reports of circulating adulterated petroleum products. See figure 2 for performance of petroleum stocks during the period of importation of adulterated fuel. The obvious inflation-provoking codes stealthily tucked inside the federal budgets do not affect the prices of stock in Nigeria. And the question is: why is it that these fundamental values do not affect them? With all these array of evidence can we rightly conclude that information does not really count in the making of the Nigerian stock market beyond such fundamental values as statutorily mandated disclosures? Are there other factors that stymie the information transmission mechanism such that it has little impact on share prices? Are the regulatory authorities in any good position to protect the market given this scenario?

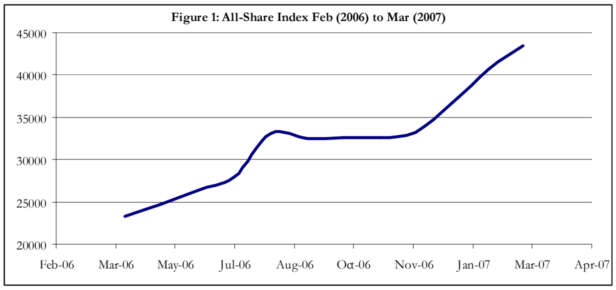

Figure 1: All-Share Index Feb (2006) to Mar (2007)

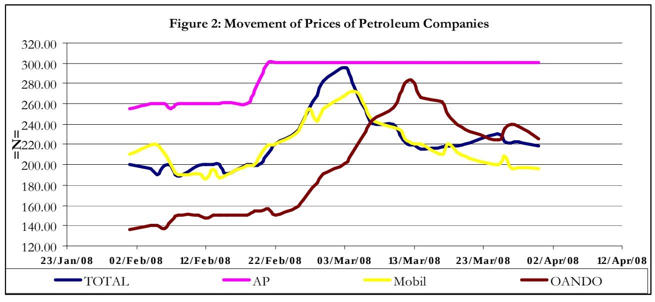

Figure 2: Movement of Prices of Petroleum Companies

Is the Nigerian Stock Market Efficient?

Some people believe in the notion of an efficient stock market. The concept neither refers to either mechanical efficiency or market adjustments. Where the former deals, for instance, with the speed with which the market effectively handles transactions to the satisfaction of the customer and the latter refers to adjustments in price movements resulting from degrees of demand and/or supply pressures. Rather, the notion holds that financial markets are informationally efficient and therefore it is not possible to outperform the market consistently by using any known information in the market aside by providence. This means therefore that at any one time the market "efficient" prices are assumed to reflect fully and realistically all that is known about the company and the entire market. Adjustments to new information are therefore instantaneous. The implication is that prices of financial securities only move because of new information, which could not have been hitherto predicted in any way since the expected part of the news are already embedded in the prices. This means that the individual investor cannot actually outwit the market. For instance if the market anticipated that Nigerian Breweries Plc will make a profit after tax of N1.5 billion, the information will be integrated into the price of Nigerian Breweries shares prior to the announcement such that the eventual announcement will have no effect. On the other hand, if Nigerian Breweries plc, rather than announce a profit after tax of N1.5 billion and announces N2.5 billion the market will react to the news and prices will adjust instantaneously. The cliché that one should buy with rumor and sell when there is news tends to support this position. This hypothesis has adverse implications for fundamental analysis because past data do not count.

The question has therefore been asked whether the Nigerian stock market is efficient in this sense, such that share prices reflect their full value by incorporating all information that has not turned out to be news. It is actually based on this fallacious hypothesis that issues about whether Nigerian market responds to information around it arises. The efficient markets hypothesis is essentially a version of the zero-profit theorem of competitive equilibrium in the conventional theory of the firm with shortcomings which approximate long-run competitive theories focusing exclusively on equilibrium without examining carefully the entrepreneurial market process. Thus it is not obtainable in real life. Under the hypothesis, no one is likely to make profits. It is equivalent to the fabled textbook perfect competition with all manner of assumptions that can never have meaning in reality. Yet upon it are based many models which are used to run our economies. When the Nigerian market is viewed through this lens, the resulting outcome is jaundiced and there is the thinking that the market does not truly reflect appropriate information in its prices because some analysts expect price movements that coincide with some news or rumors. Analysis based on this thinking suggests as they say that efficient information must be freely available for rational-profit maximization investors. Although making information available as much as possible is recommended, thinking that all relevant information should be available to all (in what is regarded efficient) very unfortunately makes a huge caricature of the entire market profit making process. Regrettably too, based on this notion, many have written that the Nigerian Stock Exchange is a far cry from being efficient since it lacks the characterization of efficient markets enunciated in the efficient markets hypothesis.

Those who participate in the capital market do so with the purpose of making appropriate returns very much typical of the profit making objectives in other spheres of life. Therefore investors who participate in the market are tirelessly seeking opportunities with high prospects. To uncover this opportunity, the investor must seek points of imperfections in market coordination and take advantage of them. However, discovering these inefficiencies is very difficult but therein lies the profitability of every entrepreneurial drive. Speculators in the market make money when they discover that stocks which have higher values are being traded as if their values are lower. This is imperfection arising from the fact that the market can not perfectly internalize all information in its price. Pinpointing this anomaly is the key to unraveling wealth and greater returns. What a good investor will do is to begin to amass these stocks knowing full well that at the time the true value is known, he or she would make a fortune. If this information is known to all the market, nobody will make any profit out of it. The same thing applies to the analysis of past data to find out if there are distortions which an investor can take advantage of.

This therefore brings about the question of insider trading, which has to do with obtaining information from non-public sources to enhance ones investment advantage. It is usually defined as profiting from the use of price sensitive information that has not been disclosed to the rest of the market. Except where such an act is conducted in a fraudulent manner, the idea of having access to information which others do not necessarily have access to is the greatest route to prosperity. Sometimes the ability to take effective advantage of such information shows a high level of business acumen in so far as it does not infringe on other people's rights and privileges. For instance whereas I do not question the authority of the Securities and Exchange Commission in this paper with respect to the full suspension of the shares of Afroil and Capital Oil, the reality is that markets thrive on insider trading depending on its degree and variation, in so far as it is not fraudulent. Since the regulatory authorities do not adequately ensure or insist that minimum necessary information is available to the public through appropriate information technology apparatus, smart investors must continue to take advantage of that deficiency and it is no fault of theirs. In markets such as the US markets, there are tools which can enable the automatic discovery of insider abuse. Even some of the available data on the websites of both the Nigerian Stock Exchange and the Securities and Exchange Commission, get easily dated making it impossible to have the right information for right judgments on a company and thus those who can appropriate the advantages of such asymmetry of information will make more gains.

The summary of my thesis here is that the market is far from being efficient which means that the investors or various actors in the market have the responsibility to search for points of inefficiencies or distortions in market coordination in order to make appropriate returns. It is rather the inefficiency in information that a good investors is looking for in order to make good upsides. All the information available to traders/investors actually reflects in their prices. What actually happens is that smart investors who based on experience, knowledge, intelligence etc have better information are probably taking more advantage of that to make more profits than the rest of the market. This is evident in Nigerian markets particularly with market leaders. Oftentimes, based on a slight piece of information, the market leaders can make as much as forty times in profit relative to what many of the fringe players will make on average. So the question can be rephrased to mean why is it that a greater percentage of the market does not discover opportunities inherent in such information such that the returns accruing to only one firm is shared by a larger number of participants in the market.

The Strength of Market Leaders

Those who are seemingly disappointed that the Nigerian stock market has not yet attained the illusory efficiency should be better advised to concern themselves rather with understanding what the market leaders and those who maximize most returns in the market do. This is because, to them the market is efficient since they are relatively able to utilize information in the marketplace to maximize their return objectives satisfactorily. Information does not need to be fully incorporated as in the sense of the efficient markets or else there will be no need for entrepreneurial activities. The Nigerian stock market like any other market is spurred by continual discoveries through entrepreneurship and competition which means that information cannot and should not be perfectly available in that sense. Those stockbroking firms who can read the implications of any development fast and take advantage of it will do that and would have made substantial profits out of it before the rumours or piece of information becomes generally available news. Some people may say that much of this is the consequence of insider trading to which I completely disagree. The market therefore is totally an entrepreneurially driven process. Take for instance the example that uncertainty has been orchestrated by the third term bid of the previous president. Some stockbrokers may interpret this as an event which may severely hurt business as they get scared of possible breakdown of law and order. Based on this hypothetical valuation they begin to offload holdings of certain stocks which by their calculation may be the worst hit in the process. The prices will temporarily dip. However, another stockbroking firm, which though agrees that this may cause some firms to under-perform but who based on previous experience or new knowledge discovers that the third term bid may not succeed after all or heard that the president himself was not particularly keen on a third term, may just borrow or use own resources to buy-up offloaded stocks of companies with good upside potentials at their low prices. This bids up prices slightly perhaps a bit higher than what it was before. Yet the third term hullabaloo is still on. The interpretation will generally be that the market is not responding to the third term event as prices are slightly higher when they are expected to be falling.

The entrepreneur has just discovered an imperfection and had taken advantage of it while the market was asleep waiting for an efficient market that would have the prices all dip at one go. The strength of the market leaders therefore depends on their entrepreneurial acumen. Their ability to harness the power of information and knowledge more effectively than their fellow competitors is what has kept them ahead of the market. Therefore when new information is available, they take advantage of it much faster and more strategically before the herd response of the market. Thus the resulting outcome may not be precisely what the market has expected. But the role of the market in allocating resources was effectively carried out. The information available was utilized by some actors in the market who based on their degree of entrepreneurship understood the opportunities much earlier. If we go back to table 1 and re-examine the price movement of Dangote Sugar, we will see that those who were able to forecast and use the forecast that Dangote Sugar was coming out with good results had taken advantage of it at least one month before the release of the price. The price of Dangote Sugar rose from N42.00 precisely a month to the release of its result to N51.00 a day to the release of the result. On the day the result was released, the price dropped to N48.00 in response to demand pressure. By then the smart entrepreneurs who anticipated the good results and had bought at much lower prices of say N42.00 and sold off at about N51.00 had reaped their benefits. They had correctly anticipated the demand pressure and consequent price drop. The market reacted precisely the way it should. Same analysis goes for Skye bank and many other stocks. This type of thinking is what is behind the purchase of dead companies by some investment banks. Whereas the market majority may read those companies as dead, some others read the information as prosperous but yet-un-activated company. To this latter category the company is neither dead nor redundant but a bunch of huge value that is yet untapped. So it is with information and events. The stories of the turn-around of Crystal bank and Nationwide to Standard Trust Bank and Platinum bank respectively are good examples.

Many years ago, stockbrokers operated on the marginal end of the Nigerian financial market. Part of the reason for that fringe position being that stockbrokers then largely saw themselves as 'ordinary' sellers of shares and as such treated even their official ambience as such. The offices of many of them were located in areas where they were competing with 'ordinary' traders such as sellers of books, clothes and other wares. They resisted e-technology and as such traditionally manualized their operations. Files heaped on each other. The concern was just to execute the 'buy' or 'sell' orders of clients: practically all-comers without target. But some entrepreneurs among them changed the entire horizon and the outlook of the industry by discovering that within the stockbroking business are off-shoots of other businesses that could bring about substantial diversification such as research, advisory services, assets management etc. However to effectively take advantage some felt that focus on particular segments of the market which they could serve well was necessary. By injecting a high sense of professionalism, executive officialdom the need for better business ambience became necessary. Some left the Marina and Broad Street ends of Lagos where many were then and relocated to Victoria Island and Ikoyi etc. The resulting impact of course was more income.

Let us now examine another variant of this thesis. Some analysts have suggested that some factors apparently hinder the transmission of information to the market thus prices do not really respond. One of the reasons promoted include the hoarding (and not selling of shareholding) of shares by some strategic and foreign investors. According to the Securities and Exchange Commission "The shares held by foreign investors (direct) and governments are hardly traded on the floor of the Exchange. The market float in Nigeria, therefore, comprises mainly individual and institutional investors' holdings. The proportional holdings of individual and institutional investors stood at 43.3 percent and 40.5 percent respectively in 2004. Thus, the market float is put at 83.8 percent. The market float had progressively improved in the last three years. For instance, it stood at 78.5 percent in 2002 and rose to 81.4 percent in 2003". See appendix 1 for foreign shareholding of selected companies. In 2007, this has not changed much save in the banking industry. Famous examples are usually that of Nigerian bluechip companies in which substantial shares are strategically held by foreign owners to maintain control, and some Nigerians who may not necessarily sell even if there are adverse events which have potentials of harming the company's fundamental value because of some emotional attachment and or information unconsciousness. The implication being that only a small fraction of stocks of these bluechips is offered to the market such that events harmful or good may not be truly reflected in the prices. On the other end of this supposed divide are the information conscious group such as new foreign entrants into the investment banking market who can just dump the shares at the slightest unsavoury development in the country and relocate outside Nigeria. The problem with this belief is that the investor who wants to buy a stock has the objective of reaping good returns. What can be considered good returns is only known to him. On the contrary, the investor who is dumping stocks have perhaps two reasons one of which may be based on demand for money or for speculative withdrawal and/or consequent investment in another stock. Both sides those who dump (sellers) and those who buy determine the prices by factoring all the information available to them in order to achieve the stated objectives. In the case of blue chip companies for instance, we know that older people are more inclined to them because they are generally less risky since its prices are less volatile. They are not willing to sell because (a) most of these companies have established tradition of dividend payouts and sometimes scrips (b) these old investors are not necessarily accumulating capital but are more interested in a stable income stream (c) most of the bluechips have weathered several adverse macroeconomic conditions and have overtime withstood them such that based on previous knowledge there is a conviction that new events may not easily destabilize them very much. Based on these information which are known to them, they hold on and refuse to sell. By holding on, they have influenced the market and consequently the market has reacted. This is because the market hinges on entrepreneurship, market discovery process and competition. Having processed their information, they find out that most efficient option for them was to hold. The same applies to those holding them strategically to maintain control. Their holding these stocks and not selling them in essence is based on the information and knowledge available to them which consequently feeds into the market as a restraint on excessive price movement. On the contrary therefore the fact of holding these stocks and not selling moderates the prices of these stocks in the market and implies therefore that they are indeed influencing the market prices. Thus rather than claiming that they do not make prices to respond well, the act of holding on in itself can be a competitive strategy in the market place and can be used to influence the prices of those offered in the market.

The Real Problem

The inability of the majority of the investors in the market to take advantage of the information as they come, thereby, to some extent, minimizing or tempering the volume of profits that would go to the few with supposedly sharper entrepreneurial acumen, is one major reason why it appears that the market (in majority) does not react to information availability. Many operators in the Nigerian market lack functioning research departments, which in the least is a structured formal platform for information acquisition, intelligence and information processing for advantageous speculations. Some even lack very market wise brokers such that they are like sheep and follow the bandwagon. In every market, bandwagoners are usually the worst hit. The smarter ones would have netted their profits and moved on leaving the left-overs to be scrambled over by those who are not smart enough to discover the opportunity. What this means is that in order to step-up the number of responses to opportunities in the market, majority of the people in the market should be able to identify these opportunities almost about the same time such that the moves to grab the opportunity may likely yield uniform market outcome. This only happens if all other things are impossibly equal. Because even when majority of the operators disover opportunities the speed to take advantage may not be the same. The capacity to take advantage may also not be the same and so on.

Herd effect, which follows from the inability of majority of the operators to discover and take advantage of market opportunities as they are revealed, is in turn characterized by substantial information transmission lag. Minimizing this lag can also help in heightening overall responsiveness of the market if such large scale response is considered desirable. My thinking is that it is not based on entrepreneurial reason but is rather premised on some sense of welfarism which of course is withdrawn from market principles of rivalry. That is to say 'let all of us have the information at the same time so that no one beats the other'. This hurts as well as undercut the smart ones. The often cited developed market experience is largely a function of the majority being able to carry out success intelligence almost at equal level; be able to correctly predict the market almost with same level of competence. This information processing capacity-gap in the Nigerian market is very huge. Almost over 60% of market players do not have functioning research units. Even majority of those have merely produce reports and not conduct any meaningful market intelligence. The overall and uniform responsiveness of the market to such fundamental, environmental or external influences are not necessarily a desirable goal, particularly if it is deliberately pursued and imposed on the market by regulatory authorities. Market is characterized by competition and players should be allowed to compete with every legally acceptable deftness in their possession. The information transmission lag occurs primarily because of the factors already mentioned namely the inability of many firms to discover opportunities on their own; the less than equal capacity of the operators to equally take advantage of these opportunities as they fall due. One of the things that the Nigerian Stock Exchange and the Securities and Exchange Commission can do in this regard is to enhance the mechanical efficiency around information provision by firms and on instruments traded on the exchange. One way is to define higher and more detailed levels of information requirements that are also time-bound and force them to comply with it. It is not the duty of regulating authorities to enforce the market use of information and so how the provided information is utilized by the firms operating in the market is really up to them.

For many years, stockbrokers stuck to virtually same way of doing exactly same thing. The result was that those who were able to do same thing differently and satisfactorily made more impact and were able to reap entrepreneurial profits before others join. The resistance to change which had plagued the market for many years is also in part why the kind of market-wide movement of prices in response to changes has been largely difficult and unobservable. Innovativeness generally takes place when there is curiosity to alter the status quo for the better which in this case can mean better customer satisfaction and attendant enhanced wealth. It is largely accomplished through research, intelligence and experience. But with a predominantly research/information unconscious market it is difficult to expect the speed of innovativeness that can bring about timely response of greater proportion of the market to changes in the environment.

More than all the points already mentioned is the possibility of regulator obstruction to information transmission. Although the Nigerian capital market is regulator driven, there is still evidence of regulator obstruction to its processes. Various forms of entry restrictions by the market regulators pose to some extent as obstruction to a well functioning market. The NSE should reduce the limitations imposed on entry of new members into the market except on legal grounds in which character of the directors are involved. This is because the directors will have charge for the investments of people. More firms should be allowed to participate in the market. More products should be allowed. It is encouraging that more firms are getting quoted. This generally calls to question the rationale behind the new minimum capitalization requirement. For fee based operators this can only be another way of restricting entry into the market and is largely considered an obstruction to a broadly constituted and well functioning market. Minimal restrictions can only engender more vibrant market. Stockbrokers are not deposit takers even though one can argue that clients' assets are entrusted in their care. But unlike banks that are constitutionally deposit taking institutions, the way that the brokers are supposed to use these assets are known ab initio. Risks are run largely when a broker acts outside the ambits of the law such as using clients funds which was meant for share purchase to engage in other business ventures with the hope of making supernormal profits and restoring what is due to the investor. If the reason for the proposed minimum capitalization is to deepen the market through the enhancement of the proprietary trading capacities of the market, the answer to that is that the regulatory authorities have no business with the scale of business or trading which each stockbroking firm will like to operate at. The choice should be theirs. If on the other hand the idea is to protect investor funds, broking firms that want to reassure their clients of their ability and credibility in protecting their assets can buy insurance policies covering the assets of its clients in their possession. This can even be a better and more acceptable client asset protection than the compulsory minimum capitalization requirement. As far as I believe, the imposition of a minimum capitalization of N1 billion as well as the imposition of licensure requirements of possession of the Associate membership of the Chartered Institute of Stockbrokers are regulator obstructions which may actually impede robustness of the market. The ACIS argument may be considered weak in view of the large number of stockbrokers that are being turned out relative to the number of exchanges, but generally it imposes some restriction. The company or an investor can chose who trades for him once full disclosure concerning the person is made.

What has also emerged form the arguments above is that a free, robust and well functioning market is indispensable for achieving robust responses and may successfully temper the degree of entrepreneurial profits that are due to a small group of participants who are much smarter. This is only a possibility and not a guaranteed certainty. A free market is in turn characterized by free entry and exit. The regulator obstruction discussed above indicates that there are still significant levels of market obstruction. Aside that, more products should be encouraged to be registered within the market.

Breaking the Carmel's Back

The Nigerian stock market cannot efficiently reflect fundamental values because no market possibly can and yet satisfy the entrepreneurial quest for profit. The market discovery process, entrepreneurship and competition make it inevitable that only those participants in the market who can successfully latch on the inefficiencies of market coordination presented as information can consistently make good returns. Given that scenario, the pursuit of efficient market in that sense is a ruse and an attempt to benchmark the Nigerian market against such non-existent standard is just a ruse. Efficiencies are attained individually by investors who use what means available to them in terms of funds, research skills and other complements to consistently outsmart the market. Such efficiency is impossible at the level of the market because it cannot be measured interpersonally. The options open therefore is for majority of the investor/traders/practitioners to understand the competitive strategy of the market leaders and find ways of beating them to it. Some of the strategies which have worked for the leaders in this market is the possession of sharp eyes and ears for information through variety of ways which includes the set up of formal research and intelligence platforms. The other include the financial power to enable the immediate conversion of opportunities without much pressure. A necessary condition is to have good intelligence on the market but the satisfying condition is to have what it takes to take full advantage of such perceived opportunities. Now when many participants have these advantages in almost a relatively equal or at beyond-minimum-benchmark levels, it will become relatively more difficult for a few participants to beat others and orchestrate un-noticed movements in the market place. However when many have these strategic advantages at relatively equal levels, changes can occur much more widely and almost in unison within the market. This unison does not represent an efficient market uniformity which will net out and result in no-profits for each but rather, represents a broadened or robust rivalry resulting in reduced information transmission lags. Heavy information transmission lag which characterizes the Nigerian market makes it much more possible for a few smart market entrepreneurs to continue to feed fat using market information for a fairly long time before the rest of the market wakes up to that realization. This in itself is good and desirable as it demonstrates entrepreneurial acumen of those few. However, competition can be heightened to generate more benefits to everybody. When this is done, the immediate effect will be reduced lag in market information transmission period. But this lag can best be reduced when majority of the operators have mechanically efficient information and intelligence processing infrastructure. This is exactly what makes the difference between markets in developed and developing countries.

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Appendix 1: Selected Companies' Foreign Share Holding

S/N	Company	Foreign (%)
1.	Okomu Oil Plc	52.32
2.	Cadbury Nigeria Plc	46.30
3.	NAHCO Plc	40.00
4.	Nestle Nigeria Plc	62.30
5.	International Breweries Plc	42.68
6.	Chevron Nigeria Plc	60.00
7.	Ashaka Cement Plc	50.16
8.	Guinness Nigeria Plc	53.80
9.	7UP Nigeria Plc	72.24
10.	Nigerian Breweries Plc	54.10
11.	John Holt Plc	51.50
12.	Cement Company of Northern Nigeria Plc	51.41
13.	SCOA Plc	68.00
14.	NCR Plc	60.00
15.	Mobil Nigeria Plc	60.00
16.	A.G. Leventis Plc	88.45
17.	Nigerian Bottling Company Plc	56.21
18.	West African Portland Cement Plc	60.00
19.	Chellarams Plc	40.00
20.	BOC Gases Plc	60.00
21.	Continental Reinsurance Plc	70.00

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