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CONTENTS

Effect of Social Factors on Rural SMES in Bida Local Government Area of Niger State A.B. Alfa and Dr. B.I. Kadandani	1
The Effects of Democratic Rule on Households' Access to Drinking Water in Nigeria: A Panel Approach S.O. Adewara and V. Martine	13
Educational Broadcasting as a Strategy For Enhancing Sustainable Development in Kogi State, Nigeria E.S. Asemah and S. Tsegyu	24
An Assessment of Portfolio Management on the Growth and Development of Small Investment I.I. Aun, E. Tsado and F.A. Abdul	37
Prevalence and Determinants of Intimate Partner Violence among Currently Married Women in Nigeria: Implications for Sustainable Transformation and Development B.L. Solanke PhD	48
The Role Of Local Government In Promoting Rural Development In Nigeria O. Vincent and Z.S. Ibenye	64
Colonialism and Militarism as Major Factor in the Democratization Process and Practice in Nigeria O.B. Onoja, PhD	80
Impact of Sociological Issues on Religion and Abortion in Nigeria V.S. Umanah and P.M. Chiefuna	92
Gender Education Gap in Nigeria: Implications for Economic Growth A.I. Monye-Emina PhD, MNES	103
Role of Media in the Sensitization of Citizenry towards Achieving Full Registration for the New National Identity Card A.B. Galadima and E.O. Eze	113

AN ASSESSMENT OF PORTFOLIO MANAGEMENT ON THE GROWTH AND DEVELOPMENT OF SMALL INVESTMENT

¹Isaac Iortimbir Aun

e-mail: aunisaac@yahoo.com

²Emmanuel Tsado

e-mail: nueltsado@yahoo.com

AND

¹Falilat Ajoke Abdul

¹Department of Business Administration, University of Ilorin, Nigeria

²Department of Business Administration, Ibrahim Badamasi Babangida University,
Lapai, Nigeria

ABSTRACT

Portfolio management is a process of integrating a set of activities in a logical and orderly manner, the process is both continuous and systematic. It is a dynamic and flexible concept that encompasses all portfolio investments. The problem most investors face is how to determine which particular risky securities to own. The study examines the optimal risk return combinations available from the set of risky assets and determines how to choose the final portfolio, consisting of the risk-free assets. Primary data were used for the study; the data were generated through the use of structured questionnaire. Tables, percentages and chi-square were used to analyze the data. Two hypotheses were formulated and tested, the result of the findings shows that portfolio management contributes to the growth and development of small investment. The study concludes that, there is need for owners of small business to carefully study the prospect and the risk involved in portfolio investment before investing into the market. Based on the findings, the study recommends that, optimal risk return combination should be identified from a set of risky assets, that small investment should determine how to own a particular security and the final portfolio consisting of risk free assets should be identified.

Keywords: Portfolio, Diversification, Risk, Return, Investment

1.0. INTRODUCTION

The term "portfolio" is usually applied to combinations of securities. The principles underlying security portfolio formation can be applied to combination of any type of asset including

investment projects. Most firms, especially the small business diffuse their efforts across a range of products, market segments and customers in order to spread more thinly the risk of declining trade and profitability. If a firm reduces its reliance on particular products or market, then it can withstand comfortably the impact of a major reverse in any single market.

However, firms do not reduce their exposure to the threat of new products or new competitors for entirely negative reasons. Diversification can generate some major strategic advantages, for example the wider the spread of activities, the more potential access to high performing markets. sector (Mossin, 1996) exemplified that an economy divided into five sectors with one star performer each year, whose identity is always random. A company operating in a single sector is likely to miss out in four years out of five. In such a world it is prudent to have a stake in every sector by building a portfolio of five activities.

Roll and Ross (1984) described a portfolio as a set of securities held by an investor. The portfolio may contain just one security. However, an adage which says one does not put all his eggs in one basket is applicable here. It will contain several securities. This type of portfolio is known as a Diversified Portfolio.

Nonetheless, most securities available for investment have certain outcome and are thus risky. The basic challenge facing each investor is to determine which particular risky securities to own because a portfolio is a collection of securities; this challenge is equivalent to the investor selecting the optimal portfolio from a set of possible portfolios. Hence, it is regarded as the portfolio election challenge.

Markowitz (1952) if an investor has a given sum of money to invest at the present time and the money is invested for a particular length of time known as the investor's holding period, at the end of the holding period, the investor will sell all the securities that were purchased at the beginning of the period and then would either spend the proceeds on consumption or re-invest the proceeds in various securities (or do both). Thus Markowitz's approach can be viewed as a single period approach wherein the beginning of the period is denoted as $t=0$ and the end of the period is denoted as $t=1$. At $t=0$, the investor must decide which particular securities to purchase and hold until $t=1$ (Sharpe: Alexander and Bailey, 1999.) making a decision at $t=1$ the investor should recognize that security returns (and thus portfolio returns) over the forthcoming holding period are unknown.

Nevertheless, the investor could estimate the expected (or mean) returns on the various securities under consideration and then invest in the one with the highest returns. Markowitz (1952) notes that this could generally be an unwise decision because the typical investor although wanting "returns" to be certain also wants "returns" to be as certain as possible. Thus the investor, in seeking to both maximize expected returns and minimize uncertainty (i.e. certain risks) has two conflicting objectives that must be balanced against each other when making the purchase decision at $t=0$. The Markowitz approach for how the investor should go about making this decision, gives full consideration to both of these objectives. One interesting consequence of having these two conflicting objectives is that the investor should diversify by purchasing not just one security but also several.

However, managing portfolio involves a series of decisions and actions that must be made by an investor, whether investors follow a passive approach or an active approach to selecting and holding their financial assets such as stocks and bonds. The relationship among the various investment alternatives which are held as a portfolio must be considered, if an investor is to hold an optimal portfolio and achieve his or her investment objectives.

1.1. Statement of the Problem

The construction of optimal portfolios and the selection of the best portfolio for an investor have implications for the pricing of financial assets. Holding a well-diversified portfolio can eliminate approximately half of the riskiness of the average stock. This means that part of the risk of the average stock can be eliminated and a part cannot.

Investors need to focus on that part of the risk that cannot be eliminated by diversification because this is the risk that should be priced in the financial market. Specifically, the following are the problems of the study:

- i. Most securities available for investment have certain outcomes and are risky. Also there is problem of determining which particular risky securities to own;
- ii. Small investment managers often resist applying optimization techniques to portfolio building; and
- iii. Although, some large corporations experience poor portfolio management, small businesses seem more vulnerable to this weakness. Many small firms are marginal or unprofitable, struggling to survive from day to day. At best, they earn barely a living for their owners. They operate, but to say that they are well managed would be an exaggeration.

1.2. Objectives of the Study

The broad objective of the study is to examine the impact of an assessment portfolio management on the growth and development of small investments. Hence, the specific objectives are to:

- i. examine optimal risk return combinations available from the set of risky assets;
- ii. determine which particular securities to own; and
- iii. determine how to choose the final portfolio, consisting of the risk-free assets.

1.3. Research Hypotheses

The study is guided by the following null hypotheses:

- H_{01} : There is no significant relationship between small investment and portfolio management.
 H_{02} : Small investment does not contribute to the growth and development of business.

2.0. LITERATURE REVIEW

One of the more dramatic changes in security markets during the past 25 years has been the movement of investment capital into professionally managed portfolios. At the end of the 1970, professional investment management firms were managing about 20% of the value of all actively traded equities in the United States. By 1995, they were managing more than 60% of the value of U.S. equities.

There are many reasons for this growth. But the most important is that growing recognizes both individual and institutional investors that ownership of professionally managed portfolios represents an easy and inexpensive way to create broadly diversified investment portfolios. Professional investment services are provided by commercial banks, insurance companies, and investment counsel firms. Each of these organizations offers two general types of investment management services.

According to Taiwo (2000), commingled funds are portfolios owned by a number of investors who pool their resources to purchase a single portfolio. Mutual funds, for example, are commingled funds that can be bought or sold by the general public. However, there are other types of commingled funds not available to the general public because ownership claims to the portfolio are not registered with the Securities and Exchange Commission. Such commingled funds are available out to large private institutional investors such as pensions and endowment funds. As explained by Mossin (1996) the formal theory of diversification was developed by Markowitz (1952) but can be reduced to the old proverb about not putting all one's eggs in one basket. Often we have read in the financial press heart-rending stories of small investor who have lost their savings in some shady venture or other? Why is it that over 50 percent of private investors persist in holding a single security in their investment portfolios? There are several possible answers to these questions. Such investors may be unaware of the advantages of spreading their risk; they may not have understood the arguments. They may not be risk averter or perhaps, they are simply irrational. Rational risk averters appreciate that not all investment performs spectacularly well. Since no one is gifted with the ability of predicting which investment fall into each category at any period of time, it is rational to spread ones fund over a wide set of investments. Shonekan (2000) explained that an investor can undertake one or both of the two investments.

Nwojis (2002)'s portfolio theory is built on statistics measure such as expected returns on investments, the variances of returns on the investments as well as covariance of the returns because there are implicit risk associated with investments on stocks and shares. Portfolio theory rests its relevance on the need for a diversification of security holdings by portfolio managers.

According to Gosh (1993), it is within this framework that, in portfolio management, the risk of the portfolio is weighted average risk of the individual constituent investment because the force of diversification (holding of different types of securities as opposed to holding a homogenous volume of securities) will spread the risk — among the constituent assets in the portfolio. However, a portfolio manager needs to be a registered member of the Nigerian Stock exchange in order to be recognized as a dealer in stocks and shares. A dealing member of the exchange is a person or an institution that in addition to being an ordinary member of the exchange is licensed to trade in stocks, share and bonds and other instruments in the stock market and accepts to be bound by the rules and regulations of the exchange. As dealers in securities, portfolio managers are represented on the floors of the stock exchange market.

2.1. Selecting an Optimal Portfolio of Risk Assets

Once the efficient set of portfolio's determined using the Markowitz model, investors must select from this set of portfolio, the most appropriate. The Markowitz model does not specify one

optimum portfolio. It generates the efficient set of portfolios all of which, by definition, are optimal portfolios (for a given level of expected return on risk).

However, in economics in general, and finance in particular, we assume investors are risk averse. This means that investors, if given a choice, will not take a "fair gamble" defined one with an expected pay off of zero and equal probabilities a gain or loss. In effect, with a fair gamble, the disutility from the potential loss is greater than the utility from the potential loss.

To detect the expected return-risk combination that will satisfy individual investor's personal preferences, indifference curves (which are assumed to be known as an investor) are used. Each indifference curve represents all combinations of portfolios that are equally desirable to a particular investor.

A few important points about indifference curves should be noted. Indifference curves cannot intersect. Since they represent different levels of desirability, investors have an infinite number of indifference curves. The curve for all risk-averse investors will be upward-sloping, but the shapes of the curves can vary depending on risk preferences. Higher difference curves are more desirable than lower differences curve. The greater the slope of the indifference curves, the greater the risk aversion of the investors. The optimal portfolio for a risk-averse investor occurs at the point of tangency between the investor's highest indifference curve and the set of portfolios.

2.2. Portfolio Management as a Process

The portfolio management has been described by Maginn and Tuttle in a book that forms the basis for portfolio management as envisioned by AIMR, and advocated in its curriculum for the CFA designation. This is an important development because of its contrast with the past. Portfolio management typically was treated on an ad hoc basis, thereby matching investors which portfolio can be structured so that any investment organization can carry it out in an effective and timely manner without serious omissions. Maginn and Tuttle (2006), emphasize that portfolio management is a process integrating a set of activities in a logical and orderly manner (Given the feedback loops and monitoring that is included) the process is both continuous and systematic. It is a dynamic and flexible concept that encompasses all portfolio investments, including real estate, gold and other real assets.

The portfolio management process extends to all types of investment organizations and investment styles. In fact, Maginn and Turtle (2006), specifically avoids advocating how the prices should be organized. Each investment management organization must decide for itself how best to carry out its activities, consistent with viewing portfolio management as a process. Having structured portfolio management as a process, any portfolio manager can execute the necessary decisions for an investor. The process provides a framework and a control over diverse activities involved, and allows every investor, individual or institution, to be accommodated in a systematic, orderly manner.

As outlined by Maginn and Tuttle, portfolio management is an ongoing process by which

- i. Objectives, constraints and preferences are identified for each investor; this leads to the development of explicit investment policies.

- ii. Strategies are developed and implemented through the choice of optimal combinations of assets. This step relates to our discussion of portfolio theory.
- iii. Market conditions, relative asset mix, and the investor's circumstance or monitored.
- iv. Portfolio adjustments are made as a necessary or reflect significant changes that have occurred.

More so, we begin with the specification of investor objectives, constraints and preferences. This specification leads to a statement portfolio policies and strategies. Next capital market expectations for the economy as well as individual asset are determined and quantified.

3.0. METHODOLOGY

Selected employees/owners of small business investment in Kwara State were used for the study. Twenty-five respondents were selected from each of the four small business investment using convenience sampling. The four small businesses are: Divine Printing, Ayo-Olude Venture, Iwa Block Industry and Moyo Engineering Company, all in Ilorin. Primary data were used for the study, the primary data were generated through the use of questionnaire, and thus a total of 100 copies of questionnaires were distributed. However, on return only 83 copies of the questionnaires were recovered. Percentages and tables were used to present the data and Chi-Square was used to test the research hypotheses. The Chi-square test statistic is given by the formulae:

$$X^2 = \sum \frac{n(o_i - e_i)^2}{e_i}$$

Where:

O = observed Frequency

e_i = expected Frequency

n = Number of samples

X² = Chi - Square

The decision rule says; accept H₀ if the computed Chi-Square value is less the table value, otherwise reject it.

The following research hypotheses were formulated and tested:

H₀₁: There is no significant relationship between small investment and portfolio management.

H₀₂: Small investment does not contribute to the growth and development of business.

4.0. DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Employees' Perception on Portfolio Management and Small Investment

Table 1: Optimal Risk Return Combination can be Identified Form a Set of Risky Assets

Variables	Frequency	Percentage
Agree	54	65.1
Disagree	26	31.3
Uncertain	3	3.6
Total	83	100

Source: Field Work, 2012

The frequency distribution in Table 1 depicts the optimal risk return combination can be identified from a set of risky assets. Thus, 65.1% of the respondents agreed and 31.3% of the respondents disagreed while only 3.6% of the respondents were uncertain.

Table 2: A Final Portfolio, Consisting of Risk Free Asset can be Identified

Variables	Frequency	Percentage
Agree	81	22.9
Disagree	24	28.9
Uncertain	40	48.2
Total	83	100

Source: Field Work, 2012

Table 2 depicts that 22.9% of the respondents agreed that final portfolio, consisting of risk free asset can be identified, and 28.9% of the respondents disagreed with this statement and only 48.2% of the respondents which constitute of the largest are uncertain.

Table 3: Portfolio Management Contributes to the Growth of Small Investment

Variables	Frequency	Percentage
Agree	45	54.2
Disagree	7	8.4
Uncertain	31	37.3
Total	83	100

Source: Field work, 2012

Table 3 shows that about 54.25% of the respondents agreed that final portfolio management contributes to the growth of small investment and only 8.4% of the respondents disagreed and 37.3% of the respondents were uncertain.

Table 4: Small Investment Contributes to the Growth and Development of Business.

Variables	Frequency	Percentage
Agree	69	83.1
Disagree	11	13.3
Uncertain	3	3.6
Total	83	100

Source: Field work, 2012

In Table 4, majority of 83.1% of the respondents agreed that small investment contributes to the growth and development of business and only 13.3% of the respondents disagreed. While about 3.6% were uncertain about the question.

Table 5: Are there Dangers in Poor Portfolio Management?

Variables	Frequency	Percentage
Agree	39	46.9
Disagree	40	48.2
Uncertain	4	4.8
Total	83	100

Source: Field work, 2012

A greater percentage of 48.2% of the respondents disagreed that there were no dangers in poor portfolio management, while 46.9% of the respondents agreed to it and only 4.8% of the respondents were uncertain (see Table 5).

Table 6: Portfolio is Built on Statistics Measures Such as Expected Returns on Investments etc do you agree?

Variables	Frequency	Percentage
Agree	26	31.3
Disagree	53	63.9
Uncertain	4	4.8
Total	83	100

Source: Field Work, 2012

Table 5 shows that 31.3% of the respondents agreed that portfolio is built on statistics measures expected returns on investments, while 63.9% of the respondents which constitute, the large respondents disagreed and only 4.8% of the respondents were uncertain.

Table 7: Investment policy can be thought of an operational statement for investment manager to follows

Variables	Frequency	Percentage
Agree	22	26.5
Disagree	4	4.8
Uncertain	57	4.8
Total	83	100

Source: Field work, 2012

A greater percentage of 48.2% of the respondents disagreed that there were no dangers in poor portfolio management, while 46.9% of the respondents agreed to it and only 4.8% of the respondents disagreed (see Table 7).

Table 8: The Asset Allocation Decision is the Most Importance Decision for Investors

Variables	Frequency	Percentage
Agree	61	73.5
Disagree	2	2.5
Uncertain	20	24.1
Total	83	100

Source: Field work, 2012

To the notion that asset allocation decision is the most important decision for investors a majority of 73.5% of the respondents affirmed the notion, while 24.1% of respondents were uncertain and only 2.5% of the respondents disagreed.

4.2 Test of Hypotheses

Further to the presentation and analysis of data carried out the test of hypotheses would now be conducted based on the statement of hypotheses which are here in restated. Chi-square test shall be used to test the hypotheses.

Hypothesis One

Ho1: there is no significant relationship between small investment and portfolio management.

To test hypothesis one, table 3 is used

VARAIBLES	O	E	0-E	(0-E) ²	(0-E) ² /E
Agree	45	27.6	17.4	302.76	10.96
Disagree	7	27.6	-20.6	424.36	15.37
Uncertain	31	27.6	3.4	11.56	0.41
Total	83				26.74

Expected frequency = $83/3 = 27.6$

$$X^2 = \sum (o - e)^2$$

$$E = 26.74$$

Level of significance = 0.05

Degree of freedom = $(r - 1)(c - 1)$

$$= (3 - 1)(2 - 1)$$

$$= (2)(1)$$

$$= 2 \times 1$$

$$= 2$$

X^2 table value (2, 0.05) = 5.99

Interpretation of Result

Based on the result above, it can be stated that x^2C (i.e. chi-square calculated) is greater than x^2t (i.e. chi-square tabulated). Hence, the null hypothesis is rejected while Alternative hypothesis is accepted. This means that there is a significant relationship between small investment and portfolio management.

HYPOTHESIS TWO

Ho2: small investment does not contribute to the growth and development of business.

To test hypothesis two, table four is appropriate.

VARAIBLES	O	E	0-E	(0-E) ²	(0-E) ² /E
Agree	69	27.6	41.4	1713.96	62.1
Disagree	11	27.6	-16.6	275.56	9.10
Uncertain	3	27.6	-24.6	605.16	21.9
Total	83				93.1

Expected frequency = $83/3 = 27.6$

$$X^2 = \sum (o - e)^2$$

$$E = 93.1$$

Level of significance = 0.05

Degree of freedom = $(r - 1)(c - 1)$

$$= (3-1)(2-1)$$

$$= (2)(1)$$

$$= 2 \times 1$$

$$= 2$$

χ^2 table value (2, 0.05) = 5.99

Interpretation of Results

Since chi-square calculated is greater than chi-square tabulated, the null hypothesis is rejected and alternate hypothesis is accepted. This indicates that small investment contributes to the growth and development of business.

4.3 Discussion of Findings

The findings of this study are summarized as follows:

- i. Optimal risk return combination can be identified from a set of risky assets
- ii. It was also found that small investment determines how to own a particular security.
- iii. The final portfolio, consisting of risk free asset could not be identified by small investment based on the responses.
- iv. That portfolio management contributed to the growth of small investment.
- v. That small investment contributes to the growth and development of business.
- vi. That there are dangers in poor portfolio management.
- vii. That portfolio is not built on statistics measure such as expected returns on investment
- viii. That investment policy could not be thought of, as an operational statement for investment managers to follow.

5.0. CONCLUSIONS

Having undertaken the issues on assessment of portfolio management and small investment growth and development in four selected small business investment in Kwara State, there is the need for owners of small business investment to carefully study and understand the prospects and the risk involved in portfolio investment before investing into the market. Although, the study reveals that, there is significant relationship between small investment and portfolio management, this cannot be achieved without the support and cooperation of the employees.

5.1. Recommendations

Based on the findings, the study recommended thus:

- i. That optimal risk return combination is identified from a set of risky assets.
- ii. That small investment should determine how to own a particular security.
- iii. That final portfolio, consisting of risk free asset should be identified.
- iv. That dangers in poor portfolio management should be planned against and managed.
- v. Portfolio should be built on statistics measure such as expected returns on investment.

- vi. That investment policy should be thought of, as an operational statement for investment managers to follow.

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