

**THE EFFECT OF CORPORATE PERFORMANCE ON STOCK PRICES
OF QUOTED NIGERIAN BANKS**

BY

**AMALU, CHRISTIAN IFEABUNIKE
PG/M.Sc/13/65206**

**DEPARTMENT OF BANKING AND FINANCE
FACULTY OF BUSINESS ADMINISTRATION
UNIVERSITY OF NIGERIA
ENUGU CAMPUS**

MARCH, 2019

**THE EFFECT OF CORPORATE PERFORMANCE ON STOCK PRICES
OF QUOTED NIGERIAN BANKS**

BY

**AMALU, CHRISTIAN IFEABUNIKE
PG/M.Sc/13/65206**

**BEING A DISSERTATION PRESENTED TO THE DEPARTMENT OF
BANKING AND FINANCE IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE (M.Sc)
DEGREE IN BANKING AND FINANCE OF THE UNIVERSITY OF NIGERIA**

SUPERVISOR: DR. CHUKE NWUDE (READER)

MARCH, 2019

DECLARATION

I AMALU, CHRISTIAN IFEABUNIKE a postgraduate student in the Department of Banking and Finance with Registration Number PG/M.Sc/13/65206 hereby declare that the work incorporated in this dissertation is original and has not been submitted in part or in full for any other Diploma or Degree of this University or any other institution of higher learning.

.....
AMALU, CHRISTIAN IFEABUNIKE
(STUDENT)

APPROVAL

This dissertation has been approved for the Department of Banking and Finance, Faculty of Business Administration, University of Nigeria, Enugu Campus by:

.....
DR. CHUKE NWUDE (READER)
(SUPERVISOR)

.....
DR. OBIAMAKA EGBO
(HEAD OF DEPARTMENT)

.....
PROF. (MRS.) R. G. OKAFOR
(DEAN)

DEDICATION

This study is dedicated to Almighty God

ACKNOWLEDGEMENTS

I express my profound gratitude to my project supervisor, Dr. Chuke Nwude (Reader) for his objective and constructive criticisms, which tremendously assisted me towards proper research procedure and presentation of facts. Through my association with him, I learnt the need for excellence, precision and optimism. He is an asset to the academic world and I am proud to be associated with him.

I remain forever grateful to Professor J. U. J. Onwumere, Dr. (Mrs.) Modebe, Dr. Obiamaka Egbo, Dr. E. Onah, Dr. Chinwe Okoyezu, Dr. Godwin Imo Ibe and all the lecturers in the Department of Banking and Finance, University of Nigeria, Enugu Campus. May the Almighty God reward you all.

I am indebted to my loving and caring wife: Mrs. Ngozi Amalu and also to my loving and wonderful children: Munachimso, Chimamaka, Somtochukwu and Chibueze Amalu.

My appreciation also goes to my friends: Sir Chinedu Ani, Prof. Paul Obidike, Hon. Chris Gisto Mma and Engr. Emma Agu.

Finally, I thank the Almighty God for His love towards me and for seeing me through this programme.

ABSTRACT

The aim of this study was to determine the effect of corporate performance on stock prices of quoted Nigerian banks. The ex-post facto research design was adopted. This enabled the researcher make use of secondary data to determine the effect of earnings per share, dividend per share, return on equity and price earnings ratio on share prices of Nigerian banks. The following performance indicators: earnings per share, dividend per share, return on equity and price earnings ratio were the independent variables while the dependent variable was share prices. The source of data for share prices and part of dividend per share were the publication of the Capital Assets Ltd while others were sourced from the annual report of the selected banks for the years under study. The dependent and independent variables were observed over a period of eleven years, that is from 2007 to 2017. The analysis was a panel data analysis and were analyzed using the Ordinary Least Square (OLS) technique. The hypotheses were tested at 5% level of significance. The result revealed that earnings per share had a positive and non-significant impact on share prices, dividend per share had a positive and significant impact on share prices, return on equity had a positive and non-significant impact on share prices and price earnings ratio had a positive and non-significant impact on share prices. Hence, the study therefore concluded that share price is an important indicator of corporate performance of Nigerian banks. It is recommended amongst others that banks should put more emphasis on growing their fundamentals as this will help to boost share prices.

TABLE OF CONTENTS

Title Page	-	-	-	-	-	-	-	-	-	-	i
Declaration	-	-	-	-	-	-	-	-	-	-	ii
Approval	-	-	-	-	-	-	-	-	-	-	iii
Dedication	-	-	-	-	-	-	-	-	-	-	iv
Acknowledgements	-	-	-	-	-	-	-	-	-	-	v
Abstract	-	-	-	-	-	-	-	-	-	-	vi

CHAPTER ONE: INTRODUCTION

1.1	Background to the Study	-	-	-	-	-	-	-	-	-	1
1.2	Statement of the Problem	-	-	-	-	-	-	-	-	-	4
1.3	Objectives of the Study	-	-	-	-	-	-	-	-	-	5
1.4	Research Questions	-	-	-	-	-	-	-	-	-	6
1.5	Hypotheses of the Study	-	-	-	-	-	-	-	-	-	6
1.6	Scope of the Study	-	-	-	-	-	-	-	-	-	6
1.7	Significance of the Study	-	-	-	-	-	-	-	-	-	7
1.8	Plan of Study	-	-	-	-	-	-	-	-	-	8
1.9	Operational Definition of Terms	-	-	-	-	-	-	-	-	-	8
	References	-	-	-	-	-	-	-	-	-	10

CHAPTER TWO: REVIEW OF RELATED LITERATURE

2.1	Conceptual Review	-	-	-	-	-	-	-	-	-	11
2.1.1	Stock Market Return	-	-	-	-	-	-	-	-	-	11
2.1.2	Stock Market Participants and Trading	-	-	-	-	-	-	-	-	-	11
2.1.3	Importance of Stock Markets	-	-	-	-	-	-	-	-	-	12
2.1.4	Relating the Stock Market to Modern Financial System	-	-	-	-	-	-	-	-	-	14
2.1.5	The Behavior of the Stock Market	-	-	-	-	-	-	-	-	-	15
2.1.6	Development of the Nigeria Capital Market	-	-	-	-	-	-	-	-	-	17
2.1.7	Corporate firm profitability and share price determination	-	-	-	-	-	-	-	-	-	22
2.2	Theoretical Review	-	-	-	-	-	-	-	-	-	24
2.2.1	Efficient Market Hypothesis	-	-	-	-	-	-	-	-	-	24
2.2.2	Levels of Efficient Market Hypothesis	-	-	-	-	-	-	-	-	-	25

2.2.3	Approaches in predicting stock prices	-	-	-	-	-	-	-	25
2.2.4	Earnings per share and stock price	-	-	-	-	-	-	-	26
2.3	Empirical Review	-	-	-	-	-	-	-	29
2.3.1	Market Anomalies in Stock Exchanges	-	-	-	-	-	-	-	34
2.3.2	Predictability of Returns	-	-	-	-	-	-	-	37
2.4	Summary of Review	-	-	-	-	-	-	-	43
2.5	Gap in Literature	-	-	-	-	-	-	-	44
	References	-	-	-	-	-	-	-	45

CHAPTER THREE: METHODOLOGY

3.1	Research Design	-	-	-	-	-	-	-	53
3.2	Nature and Sources of Data	-	-	-	-	-	-	-	53
3.3	Model Specification	-	-	-	-	-	-	-	53
3.4	Definition of Variables	-	-	-	-	-	-	-	55
3.5	Techniques of Analysis	-	-	-	-	-	-	-	57
3.6	Decision Rule	-	-	-	-	-	-	-	57
	References	-	-	-	-	-	-	-	58

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

4.1	Presentation of Data	-	-	-	-	-	-	-	59
4.2	Descriptive Statistics	-	-	-	-	-	-	-	61
4.3	Test of Hypothesis One	-	-	-	-	-	-	-	65
4.4	Test of Hypothesis Two	-	-	-	-	-	-	-	66
4.5	Test of Hypothesis Three	-	-	-	-	-	-	-	66
4.6	Test of Hypothesis Four	-	-	-	-	-	-	-	67
4.7	Discussion of Results	-	-	-	-	-	-	-	67

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.0	Introduction	-	-	-	-	-	-	-	69
5.1	Summary of Findings	-	-	-	-	-	-	-	69
5.2	Conclusion	-	-	-	-	-	-	-	69
5.3	Recommendation	-	-	-	-	-	-	-	70
5.3.1	Contribution to Knowledge	-	-	-	-	-	-	-	70

5.4	Recommendations for Further Studies	-	-	-	-	-	-	-	70
	Bibliography	-	-	-	-	-	-	-	71
	Appendix	-	-	-	-	-	-	-	79

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities. Banks are fundamental component of the financial system, and are also active players in financial markets. The essential role of a bank is to connect those who have capital (such as investors or depositors), with those who seek capital (such as individuals wanting a loan, or businesses wanting to grow). Banks play a very useful and dynamic role in the economic life of every modern state. A study of the economic history of western country shows that without the evolution of commercial banks in the 18th and 19th centuries, the industrial revolution would not have taken place in Europe Abdi, (2010).

Various groups of individuals are particularly interested in evaluating bank performance. First and foremost, bank shareholders are directly affected by bank performance. Investors take advantage of bank information to develop expectations concerning future performance that can be used to help price common shares (in addition to capital notes and debentures that may be issued by the bank). Second, bank management traditionally is evaluated on the basis of how well the bank performs relative to previous years and compared with similar (or peer group) banks. Hence, employees, salaries and promotions are frequently tied to the performance of the bank. Bankers also need to be informed about the condition of other banks with which they have business dealings. Third, regulators, concerned about the safety and soundness of the banking system and the preservation of public confidence, monitor banks using on-site examinations and computer based early warning systems to keep track of bank performance. Fourth, depositors may also be interested in evaluating the performance of the bank, as the nominal values of their deposits are not guaranteed. Fifth, the business community and general public should be concerned about their banks performance to the extent that their access to credit and other financial services is linked to the success or failure of their bank Benton and James,(2005).

Stocks are equities that allow investors to put their money into a company with hope of achieving a higher return than that of a saving account or bonds Sloan, (2012). Stock markets operate as an intermediary between savers and users of capital by means of pooling funds, sharing risk, and transferring wealth Almumani, (2014). The business world will always require management to be creative in an effort to improve their performance, they should have the ability and can take advantage of any opportunity to improve company performance. To improve the company performance, it is important to create strategies, techniques and business tools that are appropriate and suitable for the company. According to Sudiyatno, Puspitasari and Kartika (2012), Accounting Statements provide different measurements to measure the firm performance, such as net income (NI), return on assets (ROA) or return on equity (ROE). The firm performance as a barometer of the success of the company will be seen as a benchmark for investors to invest their funds. When the firm performance is high, the company's stock market price increases, as investors will respond positively as a signal to invest funds. As a representation of the firm value, the rising stock market prices show the firm value is also increasing. Therefore, the stock market prices are the factors that will determine the firm value through stock price increase.

With the increasing global competition, companies are focusing their efforts on creating shareholder value in order to survive the intense competition. In view of this, it is becoming important for companies to measure the value they create for their shareholders. Keeping track of the value created yearly enables companies to evaluate past decisions and make decisions that will improve shareholder value Moncla & Gregory, (2003). Investors and market analysts resort to financial statement analysis when it comes to share investing. The information on Earnings Per Share (EPS) is presented on the Income Statement while Return on Assets (ROA), which is one of the profitability ratios, is computed using relevant numbers from the Income Statement and Balance Sheet. The broad area of financial accounting and reporting offers a number of fundamental measures of a firm's performance for a particular accounting period. One of these financial measures is the earnings per share (EPS). Previous studies on EPS as a predictor of share price generated mixed results. Some research works concluded that EPS is a significant predictor when the firm consistently increases its EPS over a longer period of time. Various news releases, particularly of US firms, reported that many firms did not experience any increase in

share price despite increases in their quarterly EPS. This seemed to suggest that EPS may not be a good predictor of share price on a short-term basis.

ROA, on the other hand, is expected to be significantly correlated with share price since it is a profitability ratio Menaje,(2012). A person or entity invests in equity securities (shares) of companies for a host of reasons. It may be for safety cushion, cyclical cash needs, investment for a return, investment for influence, or purchase for control Skousen, Stice & Stice, (2007). Whatever the reason might be, an investor undertakes thorough financial evaluation of the available options before deciding to invest in stocks of a particular company. Subasi (2011) asserts that there is no relationship between dispersion in earnings surprises and stock market returns using monthly and quarterly time series of seasonally differenced earnings and dispersion in these differences. This relation depends on the magnitude of the earnings change. In contrast, Jorgensen, Li, and Sadka (2009) are of the view that there exist a positive relationship between dispersion in earnings surprises and stock market returns.

Johnson and Soenen (2003) analyzed 478 firms in USA during 1982-1998 and concluded that big sized and profitable firms with high level advertising expenditure have better performance in terms of those three measurements. Hobarth (2006) studied the correlation between financial indicators and firm's performance of listed firms in USA for 19 years period by using 17 financial indicators and three variables to measure firm's performance, namely market performance (stock market value), cash flow performance (dividend per share), and profitability (ROI). The result shows that firms with low book to market ratio, efficient working capital management, low liquidity, more equity and less liabilities, and high retained earnings have high profitability based on ROI Menaje, (2012).

If the financial markets are efficient, market price for banks' stock price would be one of the most appropriate tools for assessing banks' performances. The alternative to the market approach is the accounting-based financial ratio approach, which has commonly been used for measuring the financial performance of firms Abdu, (2004). Financial performance analysis through the traditional method of financial indices based on balance sheet, and income statement analysis is an important theme and it is widely used to summarize the information in a company's financial

statements in assessing its financial health. Hence, this study seeks to investigate the role of corporate performance on the determination of stock prices in the Nigerian banking sector.

1.2 STATEMENT OF THE PROBLEM

All investors, whether institutional or individual, hold one common objective when they invest in the share market; they all hope to maximize expected returns at some preferred level of risk. For investment in common stocks, much is said to have caused the changes in share prices. These have over the years created concern to investors and others such as stockbrokers, fund managers and investment analysts. Due to worldwide changes in share price in recent years, studies on share price determination and factors that affect value of firms which in turn lead to changes in the share prices of firms have received increased attention Adedoyin, (2011). If these factors can be identified, then it makes sense to consider changes in the value of firms to have been driven by these factors. Consequently, changes in share prices may be as a result of volatility in these value-drivers called corporate firm performance or characteristics. Angel, (1997) established that the average price per share differs substantially amongst stock markets around the world. The median of the United States Stock, for example, sells for about \$40; a typical London stock sells for about \$7.50 and a typical Hong Kong share is about \$2. Furthermore, when stock prices rise above a country's usual trading range, firms often split their stocks to restore prices to that range.

The Nigerian company operates under a turbulent environment, characterized by massive deceleration in money supply and credit, an energy crisis, problematic oil and gas sector, a weakening exchange rate, fluctuating inflation rate and high cost of capital. However a company share price is susceptible to all of these variables which it has no control over. There had been various questions on what is responsible for changes in price of shares. The behavior of share prices has been discovered to have been influenced by many factors both internally and externally. Sunde & Sanderson (2009) mentioned many factors that affect share price which include: corporate earnings, management strength, news of law suit, mergers, takeovers, market liquidity, market stability, availability of substitute, government policies, analyst reports, macroeconomic issues, investor's perception and technical influences.

Aside the external factors, there are internal factors influencing share price. The price of a commodity. Accepting the economists view, what factors then influence demand and supply behavior? In the securities market, whether the primary or the secondary market, the price of shares is significantly influenced by a number of factors which include book value of the firm, dividend per share, earnings per share, price earnings ratio and dividend cover Somoye, Akintoye and Oseni,(2009).

Empirical results show that markets generally react when financial information is available to investors Aduda & Chemarum, (2010). Aduda and Chemarum (2010) noted that there is always a change in the market on announcement of financial information and the only difference is the path such change or reaction takes. Sometimes the reaction is positive which is indicated by a significant increase in the value of shares or in the volume of shares traded; while at other times it is negative, indicated by a reduction in the value and volume of shares traded Khan & Ikram, (2012).. Previous studies done on the effect of performance indicators on share prices have produced contradictory results and therefore have failed to give conclusive results, hence the need to carry out this research to establish the state of affairs from Nigerian perspective as well as to advance contribution in this growing body of literature.

1.3 OBJECTIVES OF THE STUDY

The main objective of the study is to determine the effect of corporate performance on stock prices of quoted Nigerian banks. However, the specific objectives are:

1. To identify the effect of earnings per share on share prices of Nigerian banks.
2. To ascertain the effect of dividend per share on share prices of Nigerian banks.
3. To establish the effect of return on equity on share prices of Nigerian banks.
4. To determine the impact of price earnings ratio on share prices of Nigerian banks.

1.4 RESEARCH QUESTIONS

Following the above objectives, the research questions shall be:

1. How far does earnings per share had a positive and significant impact on share prices of Nigerian banks?

2. To what extent does dividend per share had a positive and significant impact on share prices of Nigerian banks?
3. How far does return on equity had a positive and significant impact on share prices of Nigerian banks?
4. To what extent does price earnings ratio had a positive and significant impact on share prices of Nigerian banks?

1.5 HYPOTHESES OF THE STUDY

In line with the objectives and research questions, the hypotheses of the study shall be:

1. Earnings per share does not have positive and significant impact on share prices of Nigerian banks.
2. Dividend per share does not have positive and significant impact on share prices of Nigerian banks.
3. Return on equity does not have positive and significant impact on share prices of Nigerian banks.
4. Price earnings ratio does not have positive and significant impact on share prices of Nigerian banks.

1.6 SCOPE OF THE STUDY

This study focused on the role of corporate performance on the determination of stock prices, as it relates to the Deposit Money Banks (DMBs) quoted in the Nigerian Stock Exchange. The periods of study were from 2007 to 2017. The year 2007 was characterized by global financial crisis which transmitted financial shocks across the globe. The banking sector consolidation programme of 2005 mandated banks to shore up their capital by a whopping 1,150% from N2 billion to N25 billion. So many banks adopted the merger and acquisition approach to meet the minimum capital requirement and at the end of the exercise, the number of banks in the country shrank from 89 to 25. In addition to mergers and acquisitions, virtually all the banks that succeeded in the recapitalization exercise raised funds through the capital market mostly through Initial Public Offering. At the end of the exercise, many of the banks had listed their shares on the main board of the Nigerian Stock Exchange. Today, with the acquisition of Enterprise Bank

by Heritage Bank and the acquisition of Main street Bank by Skye Bank, there are 21 banks operating in the country – 18 commercial banks and 3 merchant banks. The sampled bank were selected based on international authorization within the period under study.

The 15 quoted commercial banks are Access bank plc, Diamond bank plc, Ecobank plc, FBN holdings plc, FCMB plc, Fidelity bank plc, Guaranty trust bank, Skye bank, Sterling bank plc, UBA plc, Union bank plc, Unity bank plc, Wema bank plc, Zenith bank plc, Stanbic IBTC holdings plc". The Stalwart Report, (2015).However, for the purpose of this study, ten (10) quoted banks classified as commercial banks, licensed under international authorization by the Nigerian Stock Exchange were selected based on the first ten that have the highest average net profit after interest and tax over the years under study (See Appendix B).

1.7 SIGNIFICANCE OF THE STUDY

This study will be beneficial to various parties specifically as follows:

BANK MANAGEMNT: The first beneficiaries of this study will be the management arms of the various Deposit Money banks that will get new insights on the determinants of market share prices within their organizations. They will be able to structure and implement strategies aimed at improving profitability in an informed manner and avoid obvious pitfalls thus enhancing maximum profitability and the image of the bank through better market share prices.

POLICY MAKERS: The government and the corporate world policy makers will be able to borrow from this study and identify areas that will need policy development and/or enhancement in order to enhance profitability in Deposit Money banks.

RESEARCHERS AND STUDENTS: To the scholars this study will provide area for further research which can be used to add value in this area of study. The study will also be available in the University repository system for access to future researchers.

FINANCE MANAGERS: Finance managers of various banks across the world will be able to appreciate the importance of the final recommendations of this study in terms of the strategies that can be taken to improve bank signaling using various financial indicators.

1.8 PLAN OF THE STUDY

Expost-factor research designs were adopted as planned using historical data of the banks selected. The total population of the banks was twenty-three, out of which ten were judgmentally selected.

International authorization was used as bench mark for selection of the sampled banks. The banks that failed to meet the requirement were not selected for study.

The secondary data was sourced online as planned from the end of year financial statements of the banks concerned and properly arranged in a table form for easy identification and analysis.

1.9 Operational Definition of terms

Performance: Performance is associated with quantity of output, quality of output, timeliness of output, presence/ attendance on the job, efficiency of the work completed [and] effectiveness of work completed (Mathis & Jackson 2009).

Productivity: Productivity has been defined as the measure of how well resources are brought together in organizations and utilized for accomplishing a set of results (Nwachukwu, 2006).

Efficiency: Efficiency is the ratio of actual performance to the standard performance (Koonz and Weihrich, 2000).

Diversification: Diversification involves growing the current business areas of a firm or extending their capacity to new areas.

Profitability: Profitability is the ability of a business to produce a return on an investment based on its resources in comparison with an alternative investment.

Market Share: Market share represents the percentage of an industry, or market's total sales that is earned by a particular company over a specified time period.

Risk factor: This is the preparedness of the business owner to take reasonably associated risk in the line of business.

Total Annual Turnover: The total annual turnover is the total sales of an enterprise in its accounting period.

Assets Base: This comprises of all the assets of an enterprise from which the enterprise can collateralise or secure its loans.

REFERENCES

- Aduda, J., & Chemarum, C. (2010). Market Reaction to Stocks Splits: Empirical Evidence from the Nairobi Stock Exchange. *African Journal of Business & Management (AJBUMA)*, 1: 165 - 184.
- Almumani, A.M., (2014), Determinants of Equity Share Prices of the Listed Banks in Amman Stock Exchange: Quantitative Approach, *International Journal of Business and Social Science*, 5(1): 71-80.
- Hobarth, M. L. (2006). Modeling the relationship between financial indicators and company performance - An empirical Study for US listed companies. France: Dissertation Vienna University of Economics and Business Administration.
- Johnson, R. & Soenen, L. (2003). 'Indicators of successful companies'. *European Management Journal*, 21(3): 364-369.
- Jorgensen, B., Li, J. & Sadka, G. (2011). Earnings dispersion and aggregate stock returns, *Journal of Accounting and Economics*, 1-20
- Khan, A. and Ikram, S. (2012). "Testing the Efficiency of Indian Stock Market Vis-À-Vis Merger and Acquisitions - A Study of Indian Banking Sector". *International Journal of Latest Trends in Finance & Economic Sciences*, 2(2):155-163
- Mathis, R. L & Jackson, J. H.(2009). *Human Resource Management*. Mason, OH, USA: South-Western Cengage Learning.
- Menaje, P. M. (2012). Impact of Selected Financial Variables on Share Price of Publicly Listed Firms in the Philippines, *American International Journal of Contemporary Research*, 2(9), 98-104.
- Moncla, B. and Arents-Gregory, M. (2003). 'Corporate performance management: turning strategy into action', *DM Review*, Retrieved from www.dmreview.com on December 11, 2015.
- Skousen, K., Stice, J. & Stice, E. (2007). *Intermediate Accounting*, (16th ed.) Thomson South-Western
- Somoye, R. O. C., Akintoye, I. R. and Oseni, J. E. (2009). Determinants of Equity Prices in the Stock Markets, *International Research Journal of Finance and Economics*, 30: 177-189.
- Sunde, T. and Sanderson, A. (2009). A Review of the Determinants of Share Prices. *Journal of Social Sciences*, 5(3): 188-192

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 CONCEPTUAL ISSUES

2.1.1 STOCK MARKET RETURN

The stock market has been identified as an institution that contributes to the economic growth of emerging economies, they are also considered as a variable in explaining the economic growth in the most-developed ones. The study of Goldsmith (1969) is an essential reference, although since the nineties the direction of causality between economic growth and financial development has always been argued. Stock exchanges play an increasingly important role, not only for channeling resources, but also for promoting reforms to modernize the financial sector legislation as is experienced in Nigeria and other emerging economies. Levine (1991) points out two key arguments on how stock exchanges speed up the economic growth. The first is by making property changes possible in the companies, whilst not affecting their productive process; the second is by offering higher possibilities of portfolio diversification to the agents.

Market return is the indices included in each of every sector that has registered themselves in the share markets. Nigerian stock market has become a significant and strategic place for domestic and foreign investors in order to boost their investment. Muneer (2011) stated that policies on privatization, liberalization and deregulations by the regulators have encouraged private or domestic investment which would have a significant effect on the economy. Poon and Tong (2009) emphasized, high market volatility will increase unfavorable market risk premium. Al-Abadiet.al (2006) also said that, a widespread perception about market risk is the major influential factor that will affect the overall economy. Thus, market return is expected to have a positive relationship with stock returns.

2.1.2 THE STOCK MARKET

Many years ago, worldwide, buyers and sellers were individual investors such as wealthy businessmen, with long family histories (and emotional ties) to particular corporations (think Ford). Over time, markets have become more institutionalized with buyers and sellers largely institutions e.g pension funds, insurance companies, mutual funds, hedge funds, investor groups

and banks. The rise of institutional investor has brought with it some improvements in stock market operations, but not necessarily in the interest of the small investors or even of the naïve institutions, of which there are many. Now, participants in the stock market range from small individual stock investors to large hedge fund traders, who can be based anywhere. Their orders usually end up with a professional at a stock exchange, who executes the order. Most stocks are traded on exchanges e.g NSE, which are places where buyers and sellers meet and decide on a price. Some exchanges are physical locations where transactions are carried out on a trading floor, by a method known as open outcry.

The other type of exchange is a virtual kind, for instance Nasdaq composed of a network of computers where trades are made electronically via traders at computer terminals. Actual trades are based on an auction market paradigm where a potential buyer bids a specific price for a stock and a potential seller asks a specific price for a stock. When the bid and ask prices match, a sale takes place on a first come first serve basis if there are multiple bidders and askers at a given price. The purpose of a stock exchange is to facilitate the exchange of securities between buyers and sellers, thus providing a marketplace (virtual or real). Really, a stock exchange is nothing more than a super-sophisticated farmers' market providing a meeting place for buyers and sellers.

2.1.3 STOCK MARKETS AND ITS IMPORTANCE

Just as it is important that networks of transportation, electricity and telecommunications function properly, so is it essential that payments can be transacted, capital can be saved and channeled to the most profitable investment projects and that both households and firms get help in handling financial uncertainty and risk as well as possibilities of spreading consumption over time. Financial markets constitute an important part of the total infrastructure for every society that has passed the stage of largely domestic economies. Stock market which is part of the financial markets, perform the following functions in an economy:

- a. RAISING CAPITAL FOR BUSINESSES:** The stock exchange provides companies with the facility to raise capital for expansion through selling shares to the investing public.

- b. MOBILIZING SAVINGS FOR INVESTMENT:** When people draw their savings and invest in shares, it leads to a more rational allocation of resources because funds, which could have been consumed or kept in idle deposits with banks, are mobilized and redirected to promote business activity with the benefits for several economic sectors such as agriculture, commerce and industry, resulting in a stronger economic growth and higher productivity levels.
- c. FACILITATE COMPANY GROWTH:** Companies view acquisitions as opportunity to expand product lines, increase distribution channels, hedge against volatility, increase its market share or acquire other necessary business assets. A takeover bid or merger agreement through the stock market is the simplest and most common way to company growing by acquisition or fusion.
- d. REDISTRIBUTION OF WEALTH:** By giving a wide spectrum of people a chance to buy shares and therefore become part owners (shareholders) of profitable enterprises, the stock market helps to reduce large income inequalities. Both casual and professional stock investors through stock price rise and dividends get a chance to share in the profits of promising business that were set up by other people.
- e. CORPORATE GOVERNANCE:** By having a wide and varied scope of owners, companies generally tend to improve on their management standards and efficiency in order to satisfy the demands of these shareholders and the more stringent rules for public corporations by public stock exchange and the government. Consequently, it is believed that public companies (companies that are owned by shareholders who are members of the general public and trade shares on public exchanges) tend to have better management records than privately held companies (those companies where shares are not publicly traded, often owned by the company founders and/or their families and heirs or otherwise by a small group of investors). However, some well-documented cases are known where it is alleged that there has been considerable slippage in corporate governance on the part of some public companies (e.g famous Enron Corporation, MCI WorldCom, Pets.com, Webvan or Parmalat).
- f. CREATES INVESTMENT OPPORTUNITIES FOR SMALL INVESTORS:** As opposed to other businesses that require huge capital outlay, investing in shares is open to both the large and small stock investors because a person buys the number of shares they

can afford. Therefore the stock exchange provides an extra source of income for small savers.

- g. GOVERNMENT RAISE CAPITAL FOR DEVELOPMENT PROJECTS:** The Government and even local municipalities may decide to borrow money in order to finance huge infrastructure projects such as sewerage and water treatment works or housing estates by selling another category of securities known as bonds. These bonds can be raised through the stock exchange whereby members of the public can buy them. When the government or municipal council gets this alternative source of funds, it no longer has the need to overtax the people in order to finance these development projects.
- h. BAROMETER OF THE ECONOMY:** At the stock exchange, share prices rise and fall depending, largely on the market. Share prices tend to rise or remain stable when companies or the economy in general show signs of stability. Therefore the movement of share prices can be an indicator of the general trend in the economy.

2.1.4 RELATING THE STOCK MARKET TO MODERN FINANCIAL SYSTEM

The financial system in most western countries has undergone a remarkable transformation. One feature of this development is disintermediation. A portion of the funds involved in saving and financing flows directly to the financial markets instead of being routed via banks' traditional lending and deposit operations. The general public's heightened interest in investing in the stock market, either directly or through mutual funds, has been an important component of this process. Statistics show that in recent decades shares have made up an increasingly large proportion of households' financial assets in many countries.

In the 1970s, in Sweden, deposit accounts and other very liquid assets with little risk made up almost 60 percent of households' financial wealth, as against less than 20 percent in the 2000s. The major part of this adjustment in financial portfolios has gone directly to shares but a good deal now takes the form of various kinds of institutional investment for groups of individuals, e.g pension funds, mutual funds, hedge funds, insurance investment of premiums, etc. The trend towards forms of saving with a higher risk has been accentuated by new rules for most funds and insurance, permitting a higher proportion of shares to bonds. Similar tendencies are to be found in other industrial countries. In all developed economic systems, such as the European Union, the

United States, Japan and other developed world countries, the trend has been the same; saving has moved away from traditional (government insured) bank deposits to more risky securities of one sort or another. But in developing countries, it is exactly the opposite that is happening with households' savings.

2.1.5 THE BEHAVIOR OF THE STOCK MARKET

From past experience, it is known that investors may temporarily pull financial prices away from their long term trend level. Over-reactions may occur so that excessive optimism (euphoria) may drive prices unduly high or excessive pessimism may drive prices unduly low. New theoretical and empirical arguments have been put forward against the notion that financial markets are efficient. According to the efficient market hypothesis (EMH), only changes in fundamental factors, such as profits or dividends, ought to affect the share prices. But this largely theoretical academic viewpoint also predicts that little or no trading should take place contrary to fact since prices are already at or near equilibrium, having priced in all public knowledge.

However, the efficient market hypothesis is sorely tested by such events as stock market crash in 1987, when the Dow Jones index plummeted 22.6 percent the largest ever one day fall in the United States. This was part of the world wide crash of stock markets which did not originate in the United States. The event demonstrated that share prices can fall dramatically even though, to this day, it is impossible to fix a definite cause. A thorough search failed to detect any specific or unexpected development that might account for the crash. It also seems to be the case more generally that many price movements are not occasioned by new information; a study of the fifty largest one day share price movements in the United States in the post war period confirmed this Cutler, Poterba & Summers (1991),

Moreover, while the EMH predicts that all price movement, in the absence of change in the fundamental information, is random (e.g non-trending), many studies have shown a marked tendency for the stock market to trend over time for periods of weeks or longer. Various explanations for large price movements have been promulgated. For instance, some research have shown that changes in estimated risk, and the use of certain strategies, such as stop-loss limits and VAR limits, theoretically could cause financial markets to overreact.

Other research has shown that psychological factors may result in exaggerated stock price movements. Psychological research has demonstrated that people are predisposed to 'seeing' patterns, and often will perceive a pattern in what is, in fact, just noise. (Something like seeing familiar shapes in clouds or ink blots.). In the present context this means that a succession of good news items about a company may lead investors to overreact positively (unjustifiably driving the price up). A period of good returns also boosts the investor's self-confidence, reducing his (psychological) risk threshold Tversky & Kahneman, (1974). Another phenomenon also from psychology that works against an objective assessment is group thinking. As social animals, it is not easy to stick to an opinion that differs markedly from that of a majority of the group. An example with which you may be familiar is the reluctance to enter a restaurant that is empty; people generally prefer to have their opinion validated by those of others in the group. In one paper the authors draw an analogy with gambling Morris and Hyun, (1999).

In normal times the market behaves like a game of roulette; the probabilities are known and largely independent of the investment decisions of the different players. In times of market stress, however, the game becomes more like poker (herding behavior takes over). The players now must give heavy weight to the psychology of other investors and how they are likely to react psychologically.

We are also liable to succumb to biased thinking. An example is when supporters of a national football team (or a favorite stock), for instance, are overconfident about the chances of winning (or the stock moving up). The stock market, as any other business, is quite unforgiving of amateurs. Inexperienced investors rarely get the assistance and support they need. In the period running up to the recent Nasdaq crash, less than 1 per cent of the analyst's recommendations had been to sell (and even during the 2000 - 2002 crash, the average did not rise above 5%). The media amplified the general euphoria, with reports of rapidly rising share prices and the notion that large sums of money could be quickly earned in the so-called new economy stock market. This later magnified the gloom which descended during the 2000 - 2002 crash, so that by summer of 2002, predictions of a DOW average below 5000 were quite common.

To end this section on the behavior of the stock markets, it will be worthwhile to appreciate a famous quote from the preface to a published biography about a well-known and long term value oriented stock investor, Warren Buffet. Buffet began his career with only 100 U.S. dollars and has over the years built himself a multibillion-dollar fortune. The quote illustrates something of what has been going on in the stock market during the end of the 20th century and the beginning of the 21st “With each passing year, the noise level in the stock market rises. Television commentators, financial writers, analysts, and market strategists are all over talking each other to get investors' attention. At the same time, individual investors, immersed in chat rooms and message boards, are exchanging questionable and often misleading tips. Yet, despite all this available information, investors find it increasingly difficult to profit. Stock prices skyrocket with little reason, then plummet just as quickly, and people who have turned to investing for their children's education and their own retirement become frightened. Sometimes there appears to be no rhyme or reason to the market, only folly (Hagstrom, 2001).

2.1.6 THE NIGERIA CAPITAL MARKET DEVELOPMENT

The development of the Nigeria Capital Market dates back to the late 1950s when the Federal Government through its Ministry of Industries set up the Barback Committee to advise it on ways and means of setting up a stock market. Prior to independence, financial operators in Nigeria comprised mainly of foreign owned commercial banks that provided short-term commercial trade credits for the overseas companies with offices in Nigeria. Their capital balances were invested abroad in the London Stock Exchange. Thus, the Nigeria Government in an attempt to accelerate economic growth embarked on the development of the domestic capital market. This is to provide local opportunities for borrowing and lending of long-term capital by the public and private sectors as well as an opportunity for foreign-based companies to offer their shares to the local investors and provide avenues for the expatriate companies to invest surplus funds.

Based on the report of the Barback Committee the Lagos Stock Exchange was set up in 1959. With the enactment of the Lagos Stock Exchange Act 1961, it commenced business in June, 1961 and assumed the major activities of the stock market by providing facilities for the public to trade in shares and stocks, maintaining fair prices through stock-jobbing and restricting the

business to its members. The Lagos stock exchange was renamed the Nigeria Stock Exchange in 1977, with the following objectives according to Ewah, Esang and Bassey (2008).

- To provide facilities to the public in Nigeria for the purchase and sale of funds, stocks and shares of any kind and for the investment of money.
- To regulate the dealings of members interest and those of their clients.
- To control the granting of a quotation on the stock exchange in respect of funds, stocks and shares or any company, government, municipality local authority or other corporate body.
- To promote, support, or propose legislative or other measures affecting the aforementioned objectives.

According to its Memorandum and Articles of Association, the Exchange is incorporated as a private non-profit organization limited by guarantee to undertake three basic functions, which include;

- Provide trading facilities for dealing in securities listed on it.
- Oversee activities relating to trading in securities.
- Enhance the flow of long-term capital into productive investment and ensuring fairness of prices at which quoted securities are traded.

Initially trading activities commenced with two Federal Government Development Stocks, one preference share and three domestic equities. The market grew slowly during the period with only six equities at the end of 1966 compared with three in 1961. Government stocks comprised the bulk of the listing with 19 of such securities quoted on the Exchange in 1966 compared with six at the end of 1961 Nnanna, Englama and Odoko, (2004). Prior to 1972 when the indigenization exercise took off, activities on the Nigeria stock exchange were low. That was true both in terms of the value and volume of transactions. For instance, the value of transactions grew from N1.49million in 1961 to N16.6million in 1971. Similarly, the volume of transactions grew from 334 to 634 over the same period. Though the bulk of the transactions were in government securities, which were mainly development loan stock through which the

government raised money for the execution of its development plans. Accordingly, with the promulgation and implementation of the Nigeria Enterprises Promotion Decree of 1972, which its principal objectives include; promoting capital formation, savings and investment in the industrial and commercial activities of the country, the low level of activities in the stock market increased as Nigerians gained the commanding heights of the economy Nnanna, Englama and Odoko, (2004).

However, following the criticisms that the Nigerian stock Exchange was not responsive to the needs of local investors, especially indigenous businessmen who wished to raise capital for their businesses, the NSE, introduced the Second-Tier Securities Markets (SSM) in 1985 to provide the framework for the listing of small and medium-sized Nigeria companies on the Exchange. Six companies were listed on this segment of the stock market by 1988 and by 2002 over twenty-three companies had availed themselves of the opportunities offered by this market Nnanna, Englama and Odoko, (2004).

The major instruments/products available in the Nigerian capital market to date include; the industrial equities otherwise referred to as ordinary shares; industrial loans such as debentures, unsecured zero coupons, preference bonds/stocks, specialized project loans/infrastructural loans, government stocks/bonds, unit trust schemes, unlisted corporate/industrial loans stock, among others. The market is currently divided into two categories; equities and debt markets. The former are instruments or products that confer ownership rights on the investor, while the later are interest-bearing obligations with fixed or floating interest-rates Ewah, Esang and Bassey, (2008).

In another exposition, Ekezie (2002) noted that, the capital market is a market for dealing (i.e. lending and borrowing) in longer-term loanable funds. Mbat (2001) described it as a forum through which long-term funds are made available by the surplus to the deficit economic units. It must, however, be noted that although all the surplus economic units have access to the capital market, not all the deficit economic units have the same easy access to it. The restriction on the part of the borrowers is meant to enforce the security of the funds provided by the lenders. In order to ensure that lenders are not subjected to undue risks, borrowers in the capital market need to satisfy certain basic requirement. It has very profound implication for socio-economic development of any nation. Companies can finance their operations by raising funds through

issuing equity (ownership) or debenture/bond borrowed as securities. Equities have perpetual life while bond/debenture issues are structured to mature in periods of years varying from the medium to the long-term of usually between five and twenty-five years.

Capital market offers access to a variety of financial instruments that enable economic agents to pool, price, and exchange risk. Through assets with attractive yields, liquidity and risk characteristics, it encourages savings in financial form. This is very essential for government and other institutions in need of long-term funds and for suppliers of long-term funds. Based on its importance in accelerating economic growth and development, government of most nations tends to have keen interest in the performance of its capital market. The concern is for sustained confidence in the market and for a strong investor's protection arrangement. Nigeria Securities and Exchange Commission (NSEC) is the government agency responsible for developing and regulating the Nigeria capital market. It was created by Act No. 71 of 1979 and re-enacted as Securities and Exchange Commission Decree No. 29 of 1988.

Economic growth is generally agreed to indicate development of an economy, because it transforms a country from a five percent saver to a fifteen percent saver. Thus, it is argued that for capital market to contribute to economic growth and development in Nigeria, it must operate efficiently. Most often, where the market operates efficiently, confidence will be generated in the minds of the public and investors will be willing to part with hard earned funds and invest them in securities with the hope that in future they will recoup their investment Ewah, Esang and Bassey, (2008).

The capital market has opened the floodgate to relatively inexpensive fund surpassing the possibility of self-financing available to indigenous enterprises. Such funds are usually used for expansion of existing businesses or to cushion the effect of inflation so that businesses may continue as going concerns. It also affords indigenous enterprises and entrepreneurs the opportunity to be introduced into the economy in general through entry into the securities market. This enables shares that have been privately held to be offered to the general market or international market for inflow of foreign investment. The entering of an indigenous company into the capital market enhance its prestige and reputation, especially its products and credit worthiness in the eyes of the public as conferred upon it by the new status Bayero, (1996). The capital markets in Nigeria create a free entry and exist for investors. It is a known fact in private

company that it is not easy for an investor (shareholder) to withdraw capital invested without upsetting the company capital structure. But for public quoted company, it does work not like that. As long as an investor's broker can find a prospective investor to buy the clients' shares the process is done.

One of those important functions of the capital market is to encourage indigenous enterprises to develop its peculiar technologies through accessibility to funds and expertise through international connection. This it has achieved tremendously. Moreover, most of the enterprises benefited from the implementation of the Nigeria Enterprises Promotion Acts and the privatization policies through the market. Both policies promoted indigenous enterprises, which are the main engine of economic growth and development in an economy. Despite the capital market laudable performance and benefits, it is still beclouded with some weakness in Nigeria. The bureaucratic system of the Securities and Exchange Commission is a hindrance to smooth processing of application submitted to it. The private sector to which most enterprises belong is not used to the system of growth of the public sector, but operates by the desire to be competitive. The fees charged by the exchange are unreasonably high and constitute a great burden on enterprises/companies for whose sake the Second tier Securities Market (SSM) was established in 1985 Ewah, Esang and Bassey, (2008).

If it is realized that the engine of economic growth and development in Nigeria rest in this sector, which is endowed with the capacity to create jobs for the unemployed, then the charges should be moderate and not appear to be punitive. Likewise the cost of hiring the services of stock brokers, registrars and issuing houses in the capital market is getting higher every now and then, but their efficiency is not commensurate to the high cost, this gives room for complaints and mistrust. The imposition of all forms of taxes by the three tiers of government on companies and businesses is especially discouraging, and add to the number of weakness that undermine the capital market as the engine room and pivot for economic growth and development in Nigeria Ewah, Esang and Bassey, (2008).

2.1.7 CORPORATE FIRM PROFITABILITY AND SHARE PRICE DETERMINATION

Firm profitability constitutes a major indicator most sought by investors in the capital markets, because it allows them to set their decisions about the firm value. Researches in this field began from the seminal works of Ball and Brown (1968) and Beaver (1968) that showed empirically the utility of accounting earnings, supposed to be relevant to appreciate the real performance of the company.

In the determination of share price, rational investors in deciding whether to subscribe for shares or not evaluates the prospects of issuing companies. Firth, Branson, Chee & Gillian (1995); Chen, Firth & Krishnan (2001) and Chen and Firth (1999) argue that due to the limited usefulness of published accounts as a guide to future performance and in the absence of any other reliable information, investors rely on information disclosed in prospectus to make positive investment decisions. Profits forecasts constitute one of the primary disclosures in prospectus. Siougle (2003) hypothesized that company management and analysts are superior in predicting corporate earnings relative to the forecasts that investors could form if they used a simple random walk predicting model. Penman (2001) considers that accounting earnings is of quality only if it is able to predict firm future value, since investors buy current earnings and sell future earnings.

Ball and Brown (1968) used a procedure to assess the speed of adjustment of security prices to earnings announcement in the Wall Street Journal. They reasoned that the market participants would have formed opinions reflected in their forecasts of what the earnings numbers should be, and, collectively, these forecasts would be reflected in a market forecast of the stock's price. The study indicates that most of the information contained in the annual financial report is anticipated by the market before they are released. Brown and Kennelly (1972) found similar results concerning market reaction to quarterly earnings reports. Aharony and Swary,(1980) focused on quarterly earnings reports where information revealed to the market is more timely than annual financial reports. Quarterly earnings reports are sometimes followed by announcements of dividend changes which also affect the share price. They conclude that both quarterly earnings announcements and dividend change announcements have statistically significant effects on the share price.

In contrary Pettit (1972), measured the market's reaction to dividend announcements, the results of both studies are however consistent with the behaviour implied by the efficient market hypothesis: there was no evidence that a firm's dividend announcement affected the firm's share price in the periods following the announcement. However, Handjinicolaou , Kalay (1984) and Woolridge (1983) have argued that one cannot infer that dividend increases convey positive information about the firm by examining share prices alone, since unexpected dividend increases could cause wealth transfers from bondholders to shareholders by reducing the asset base of the firm. Therefore, the observed increase in share price is consistent with both wealth redistribution and positive information. To differentiate between the relative importance of these two effects, Handjinicolaou and Kalay (1984) and Woolridge (1983) analyze the changes in bond prices around dividend announcements since the two hypotheses (information and wealth transfer) have different predictions for bond price behaviour. In particular, the wealth transfer hypothesis predicts a negative bond price reaction while the information content hypothesis predicts a positive reaction.

Bhana (1991) examined the share market response to substantial changes in dividend policies by Johannesburg Stock Exchange (JSE) listed stocks during the period 1970-1988. The results provide strong support for the information content of dividends hypothesis. The empirical evidence suggests that large dividend changes on the Johannesburg Stock Exchange (JSE) convey valuable information to investors over and above that contained in the earnings announcements. Subsequent research Bhana (2002) observes a sample of 100 companies announcing special dividends over the period 1975 - 1994. Daily data on share prices were obtained from the database of the Johannesburg Stock Exchange (JSE) and McGregor's Online Information Services. The study indicates stock price reacts to increases in dividends, showing that share price reactions are negatively related to dividend declaration frequency. This result suggests that market participants anticipate the announcements of special dividends by companies that have frequent declarations of such dividends. This, in turn, shows that request declaration of special dividends convey less information than infrequent declarations do. Oyerinde (2011) reiterates that share prices of firms listed on the Nigerian stock exchange are positive and significantly affected by Earnings while examining the aggregate market reaction to firm profitability.

2.2 THEORETICAL REVIEW

2.2.1 EFFICIENT MARKET HYPOTHESIS

The efficient market hypothesis is associated with the idea of a random walk, which is a term loosely used in the finance literature to characterize a price series where all subsequent price changes represent random departures from previous prices. The logic of the random walk idea is that if the flow of information is unimpeded and information is immediately reflected in stock prices, then tomorrow's price change will reflect only tomorrow's news and will be independent of the price changes today. But news is by definition unpredictable and, thus, resulting price changes must be unpredictable and random. As a result, prices fully reflect all known information, and even uninformed investors buying a diversified portfolio at the tableau of prices given by the market will obtain a rate of return as generous as that achieved by the experts. (Malkiel, 2003).

The efficient markets hypothesis (EMH), popularly known as the Random Walk Theory, is the proposition that current stock prices fully reflect available information about the value of the firm, and there is no way to earn excess profits, (more than the market overall), by using this information. It deals with one of the most fundamental and exciting issues in finance why prices change in security markets and how those changes take place. It has very important implications for investors as well as for financial managers. Fama (1970) sees an efficient market, as one that reflects full effects of new information on intrinsic values to be reflected instantaneously in actual prices. Many investors try to identify securities that are undervalued, and are expected to increase in value in the future, and particularly those that will increase more than others. Many investors, including investment managers, believe that they can select securities that will outperform the market. They use a variety of forecasting and valuation techniques to aid them in their investment decisions. Obviously, any edge that an investor possesses can be translated into substantial profits. Fama (1970) concluded that daily changes had a very small positive correlation, approaching zero for practical purposes. The stock market seemed to work in a way that allowed all information reflected in past prices to be incorporated into the current price. In other words, the market efficiently processed the information contained in past prices.

2.2.2 LEVELS OF EFFICIENT MARKET HYPOTHESIS

In literature, a distinction is made between three potential levels of efficiency weak, semi-strong and strong each relating to a specific set of information which is increasingly more comprehensive than the previous one. The market is efficient in the weak sense if share prices fully reflect the information implied by all prior price movements. Price movements, in effect, are totally independent of earlier movements. Consequently, investors are unable to profit from studying charts of past prices. In addition, efficiency at the weak level rules out the validity of trading rules designed to produce above-average returns. The weak form of efficiency has also been designated in literature according to Chaudhuri (1991) as random walk hypotheses.

In the semi-strong form, the information set comprises of publicly available information. The implication of market being efficient in the semi-strong sense is that it would be rather futile for investors to search for bargain opportunities (i.e., mispriced shares) from an analysis of published data. The market is efficient in the strong sense if shares fully reflect not only published information, but also all relevant information including information not yet publicly available. If the market were strongly efficient, then even an insider would not be able to profit from his privileged position. Needless to say, these three levels are not independent of one another. For the market to be efficient in the strong sense it must also be efficient at the two lower levels, otherwise the price would not capture all relevant information. Keane (1983) provides a lucid exposition of efficient market theory and related issues. (Chaudhuri 1991).

2.2.3 APPROACHES IN PREDICTING STOCK PRICES

1. Chartist or technical theories. The basic assumption of all the chartist or technical theories is that history tends to repeat itself, that is, past patterns of price behavior in individual securities will tend to recur in the future. Thus the way to predict stock prices (and, of course, increase one's potential gains) is to develop a familiarity with past patterns of price behavior in order to recognize situations of likely recurrence. Essentially, then, chartist techniques attempt to use knowledge of the past behavior of a price series to predict the probable future behavior of the series. The various chartist theories assume that the sequence of price changes prior to any given day is important in predicting the price change for that day. The techniques of the chartist have always been surrounded by a certain degree of mysticism, however, and as a result most market

professionals have found them suspect. Thus it is probably safe to say that the pure chartist is relatively rare among stock market analysts. Rather the typical analyst adheres to a technique known as fundamental analysis or the intrinsic value method.

2. The theory of fundamental or intrinsic value analysis. The assumption here is that at any point in time an individual security has an intrinsic value or, in the terms of the economist, an equilibrium price which depends on the earning potential of the security. The earning potential of the security depends in turn on such fundamental factors as quality of management, outlook for the industry and the economy, etc. Through a careful study of these fundamental factors the analyst should, in principle, be able to determine whether the actual price of a security is above or below its intrinsic value. If actual prices tend to move toward intrinsic values, then attempting to determine the intrinsic value of a security is equivalent to making a prediction of its future price; and this is the essence of the predictive procedure implicit in fundamental analysis.

2.2.4 EARNINGS PER SHARE AND STOCK PRICE

The theory of stock prices originated from Random Walk theory in the work of Fama (1980). The early studies by Fama (1965), Samuelson (1965) and Working (1960) could not reject a random walk theory. Shiller (2000) indicates that there are reasons that the random walk behavior of stock prices should hold. There is evidence suggesting that stock prices do follow a random walk. Findings by Shiller (2000) support that stock prices are very much uncertain and this may not be true because firm's fundamentals may to a great extent influence stock prices. This argument is supported by early rejection of a random walk theory by Hoffer and Osborne (1966) and Porterba and Summer (2000) who argue that there is little theoretical basis for strong attachment to the null hypothesis that stock prices follow a random walk.

Stock prices could be determined by micro and macro economic factors (Christopher, Rufus and Jimoh, 2009). These factors which include book value of the firm, dividend per share, EPS, price- earning ratio and dividend cover (Gompers, Ishii and Metrick, 2003). Moore and Beltz (2002) argue that stock prices of a firm is influenced by firm beta ratios i.e. its market value to book value. Hordahl and Packer (2006) challenge Moore and Belt (2002) position. They argue that stochastic discount factor and future pay offs determine the stock prices. Corwins (2003)

identifies uncertainty and asymmetric information as a strong influence of firms stock pricing which led to under price. The relationship between stock prices and firm EPS has received considerable attention in the literature. One of these studies is the one conducted by Lev (2001) who review several studies on the information content of firm EPS and reports that EPS changes only on weekly related to contemporaneous stock prices. Shiller (2000), Fama and French (2002) use regression of stock prices on the lagged firm EPS and find that they have explanatory power to stock prices movement.

In the same vein, Ball and Brown (2001) conducted a study to investigate the annual association between annual change in stock prices and annual changes in firms EPS. The result obtained shows that annual changes in stock prices cause firm EPS to change in the following year. Chang and Wang (2008) conducted a study using Ohlson (1995) model on Taiwan firms in 2004. The result indicates that firm's stock prices movement has a positive significant relationship with firm EPS. Shiller (2000) argues that stock prices can be viewed as a predictions of investors earnings, therefore, it is reasonable that the variation in prices should be no greater than variation in firm EPS. Sheller's findings have been investigated thoroughly and reach no agreement on the results. One important study of the relationship between stock prices and firm EPS is the work of Docking and Koch (2005) who assert that there is direct relationship between firm EPS announcement and stock price behavior. In the same vein, Chetty, Rosenberg and Saez (2007) explain that stock prices changes behavior when firms EPS are announced.

Zhao (2000) studies the relationship between stock prices and firm EPS using regression model. He found that firm EPS have an important impact on stock prices, especially on long horizons, but the hypothesis that move one-for-one with ex-ante is rejected. In broader perspective Lee (2002) uses three-years rolling regressions to analyze the relationship between stock prices and firm EPS. He tries to forecast stock prices on the standard and poor 500 index with the short term firm EPS, but finds that the relationship is not stable over time. It gradually changes from a significantly negative to no relationship then to positive; although insignificant relationship. In line with Lee (2002), Spyrou (2001) also studies the relationship between firm EPS and stock prices but for the emerging economy of Greece. He finds that firm EPS are negatively related but only up to 1995 after which the relationship become insignificant. Harasty and Roulet (2000)

work on seventeen developed countries and shows that stock prices are co-integrated with firm EPS. Hsing (2004) uses structural VAR model for the simultaneous determination of firm fundamental and finds that there is an inverse relationship between stock prices and firm EPS. The finding of Hsing (2004), Harasty and Roulet (2000) indicated that even if the relationship exist is weak to some extent between stock price and EPS.

CAPITAL ASSET PRICING MODEL (CAPM):

The CAPM builds on the model of portfolio choice developed by Harry Markowitz (1959). In Markowitz's model, an investor selects a portfolio at time t that produces a stochastic return r_t . The model assumes investors are risk-averse and, when choosing among portfolios, they care only about the mean and variance of their one-period investment return. As a result, investors choose mean-variance-efficient portfolios, in the sense that the portfolios 1) minimize the variance of portfolio return, given expected return, and 2) maximize expected return, given variance. Thus, the Markowitz approach is often called a mean-variance model. The portfolio model provides an algebraic condition on asset weights in mean-variance-efficient portfolios. The CAPM turns this algebraic statement into a testable prediction about the relation between risk and expected return by identifying a portfolio that must be efficient if asset prices are to clear the market of all assets. Sharpe (1964) and Lintner (1965) add two key assumptions to the Markowitz model to identify a portfolio that must be mean-variance-efficient. The first assumption is complete agreement: given market clearing asset prices at $t-1$, investors agree on the joint distribution of asset returns from t to T . And this distribution is the true one that is, it is the distribution from which the returns we use to test the model are drawn. The second assumption is that there is borrowing and lending at a risk-free rate, which is the same for all investors and does not depend on the amount borrowed or lent.

2.3 EMPIRICAL REVIEW

Empirical results show that markets generally react when financial information is available to investors Aduda & Chemarum, (2010). Lee (2006) employs two types of aggregate index data: annual industrial average index data for the sample period 1920-1999 by Dow Jones, and annual Standard and Poor's (S&P) 400 industrial index data for the sample period 1946-1999. The study finds that investors overreact to non-fundamental information but under react initially to fundamental information (dividend, book value and earning), with no significant reversal associated with fundamental information in the long run. The study also finds that the residual income model provides a better valuation than the dividend discount model.

Docking and Koch (2005) in their study to assess investor reaction to dividend increase or decrease shows that dividend change announcements elicit a greater change in stock price when the nature of the news (good or bad) goes against the grain of the recent market direction during volatile times. First, announcements to raise dividends tend to elicit a greater increase in stock price when market returns have been normal or down and more volatile. However, this tendency lacks statistical significance. Second, announcements to lower dividends elicit a significantly greater decrease in stock price when market returns have been up and more volatile.

Al-Qenae, Li & Wearing (2002) made an important contribution by investigating the effect of earning and other macroeconomic variables on the stock prices of Stock Exchange during the period 1981-1997 in Kuwait. The macroeconomic variables examined are gross national product (GNP), interest rate, and inflation. The study found a significant and higher sensitivity of the estimated earning response coefficient (ERC) with the leading period returns. Moreover, both inflation and interest rate have negative and statistically significant coefficients in almost all cases on stock prices while GNP has positive effect but it is only significant in a certain (high) return measure interval. This study supports the idea that investors in KSE are able to anticipate earnings and suggests that the KSE market exhibits some features of semi-strong efficiency (i.e., a scenario in which stock prices incorporate all publicly available information).

The empirical study undertaken by Ralph and Eriki (2001) on the Nigerian Stock Market examining the relation between stock prices and inflation provides a strong support for the proposition that inflation exerts a significant negative influence on the behavior of the stock

prices. Moreover, the study shows that stock prices are also strongly driven by the level of economic activity measured by GDP, interest rate, money stock, and financial deregulation. On the other hand, the findings of the study show that oil price volatility has no significant effect on stock prices. Zhao (1999) studied the relationships among inflation, output (industrial production) and stock prices in the Chinese economy. The study employs monthly values covering the period from January 1993 to March 1998. The results indicate a significant and negative relation between stock prices and inflation. The findings also indicate that output growth negatively and significantly affect stock prices.

Dimitrios (2003) examine the relationships between stock prices and macroeconomic factors in the emerging Cypriot equity market. In this study, he used the vector autoregressive model (VAR). The macroeconomic factors examined in this study, which covers the period from 1975 to 1998, are exchange rate, industrial production, money supply, and consumer prices. The results of the study indicate a strong relationship between stock prices and those macroeconomic factors. According him, the strong relationship between stock prices and exchange rate should not be surprising, since the Cypriot economy depends for most part on services such as tourism and off-shore banking. He also notes that the relationships between stock prices and industrial production, money supply, and consumer prices reflect macroeconomic policies implemented by Cypriot monetary and fiscal authorities.

Ibrahim (2003) applies co integration and VAR modeling to evaluate the long term relationship and dynamic interactions between Equity Market in Malaysia, various economic variables, and major equity markets in the United States and Japan. The macroeconomic variables used are real output, aggregate price level, money supply, and exchange rate. The study yielded two main findings: first, the Malaysian stock price index is positively related to money supply, consumer price index, and industrial production. Second, it is negatively linked to the movement of exchange rates. Mukherjee and Naka (1995) investigate the relation between Tokyo stock prices and six macroeconomic variables using a vector error correction model (VECM). Their study covered 240 monthly observations for each variable in the period from January 1971 to December 1990. The results of the study show that the relationship between Tokyo stock prices,

the exchange rate, money supply, and industrial production is positive, whereas the relationship between Tokyo stock prices and inflation and interest rates is mixed.

Chaudhuri and Smiles (2004) test the long run relationship between share prices and changes in real macroeconomic activity in the stock market in the period from 1960 to 1998 in Australia. The macroeconomic factors include real GDP, private consumption, money, and oil price. The results of their study indicate that long run relationships between stock prices and real macroeconomic activity. The study also found that foreign stock markets such as the American and New Zealand market significantly affect the Australian stock return movement. In order to test the informational efficiency of stock market in Malaysia.

Ibrahim (1999) investigates the dynamic interaction between stock prices and seven macroeconomic variables covering the period from 1977 to 1996. The author used co-integration and the Granger causality test. The macroeconomic variables include the industrial production, consumer prices, M1, M2, credit aggregates, foreign reserves and exchange rates. The results strongly suggest informational inefficiency of the market in Malaysia . In other words , there is co-integration between the stock prices and these macroeconomic variables. The study demonstrates that stock price movements anticipate variation in the industrial production, money supply, and the exchange rate while Maysami and Koh (2000) examined the dynamic relations between macroeconomic variables and Singapore stock markets using the vector error correction model. The macroeconomic variables are exchange rate, long and short term interest rates, inflation, money supply, domestic exports, and industrial production. The data were seasonally adjusted and cover the period from 1988 to 1995. The study shows that inflation, money supply growth, change in short and long term interest rates, and variation in exchange rates do form a co-integrating relation with the changes in Singapore's stock market levels. This study also examined the association between the American and Japanese stock markets and the Singapore stock market. There was evidence of co-integration among the firms stock under study in these three financial markets .

Hammoudeh and Aleisa (2004) have studied the relationships among Gulf Cooperation Council (GCC) stock markets and NYMEX oil future prices for a period from 1994 to 2001 as the oil exports largely determine foreign earnings and governments' budget revenues and expenditures.

Thus, they are the primary determinants of aggregate demand which influences corporate output and domestic price level, which eventually impact corporate earnings and stock prices. The result found that the index of the UAE stock market represents the country with the next highest link along with Bahrain after the Saudi Arabia market.

Furthermore, firms with low book value to market ratio, efficient working capital management, more equity and less liabilities, low total assets, and high EBIT margin have better market performance (measured by changes in stock price). Daniati and Suhairi (2006) showed that cash flow from investing activities, gross profit, and company size significantly affect expected return on shares. On the other hand, cash flow from operating activities does not affect expected return significantly. Meythi (2006) researched 100 manufacturing firms in BEJ during 1999-2002 and concluded that, with profit persistence as intervening variable, cash flow from operating activities does not affect stock price. Anggraini, Setiawati and Desembriarto (2004) tried to learn the effect of fundamental variables on abnormal return during crisis and non-crisis period. The research period is 1995-2002, where 1998 is considered as crisis period. The paper used seven fundamental variables: inventory, accounts receivable, gross profit, marketing and administrative expense, allowance for doubtful account relative to sales, effective tax rate, and audit qualifications. During crisis period, only gross profit affects abnormal return significantly, while in non-crisis period inventory, financial reports, and audit qualifications have significant influence on abnormal return. The important thing is the low adjusted-R² which is only 0.5% (for crisis period) and 0.8% (for non-crisis period). This indicates the low ability of fundamental signals to explain the return variability in capital market.

Hobarth (2006) conducted a research in Viena at which examined the impact of financial ratios on share, they calculated different ratios and took their regression with their share prices Based on regression result, it was concluded that financial ratios like firm size and cash flow from operating activities affect return and unusual return. The research reveals that the stock price movement is much affected by factors other than firm's financial performance. It suggests that there is other information other than internal factors that also affect the stock price movement. In certain periods, the changes in stock price do not reproduce the firm's financial performance. Macro-economic condition, political situation, government policy, and technical points in a firm are factors other than financial performance that can affect the changes in stock price. Factors

such as interest rate, inflation rate, and exchange rate can affect changes in stock return significantly (Hobarth, 2006).

Kennedy (2003) conducted a study on the impact of financial ratios on the stock prices in Italy. The financial ratios of different companies were calculated from different industries and ran a regression between the financial ratios and share prices to see the impact of ratios on share prices. The study concluded that although financial position of a company does impact its share prices but ratios are not always having impact on share prices. Hasheesh (2003) examined the role of published accounting Information in predicting share prices. The study used a sample of 40 Jordanian public companies listed in Amman Security Exchange for the year 2003. The results showed that there is a significant positive relationship between the market price per share with the ratios of net profits to equity, net profits to total assets, and dividends to net profits as a total. The results showed also a significant negative relationship between the market price per share, with the ratios of fixed assets to total assets, the creditors total of cash sources, and the wages ratio to total of expenses ratio.

Manao and Nur (2001) observed the relation between financial ratio and stock returns during economic crisis in Indonesia by adding firm size as variable. The companies were divided into three size categories (small, medium and big) based on total assets. The result shows that PBT and EPS have significant influence on all models. Sparta and Februwaty (2005) studied the effect of ROE, EPS, and DPS on stock return of manufacturing industry in BEJ using data of 32 manufacturing companies during 1999-2002. The result shows that only ROE that significantly influences stock return, while EPS and DPS have insignificant negative effect on stock return. Mais (2005) performed research on effect of financial ratios, including NPM, ROA, ROE, DPS, and EPS, on stock price of companies listed on Jakarta Islamic Index in 2004. The outcome of this research explains that statistically all variables except DPS are significant and have positive impact on stock price.

Kennedy (2005) analyzed the effect of ROA, ROE, EPS, Profit Margin, Assets Turnover and DPS on stock return in BEJ during period 2001-2002. The study found that ROA, EPS, Assets

Turnover and DPS have positive effect, while ROE and Profit Margin have negative effect, on stock return. However, all variables are statistically insignificant in influencing stock return.

The relationship between stock prices and firm earning per share (EPS) which appears to be contestable like any other performance measures was studied by Umar and Musa (2013). This study examined the relationship between stock prices and firm EPS from 2005 to 2009. Using a simple linear regression model on a panel of 140 Nigerian firms from a total population of 216 firms' operated in Nigerian Stock Exchange (NSE), it was discovered that firm EPS has no predictive power on stock prices and should not be relied upon for the prediction of the behavior of stock prices in Nigeria. This finding is however contrary to the findings of Ball and Brown (2001), Chang and Wang (2008) which revealed that firm's stock prices movement has a positive significant relationship with firm EPS.

2.3.1 MARKET ANOMALIES IN STOCK EXCHANGES

Several easy accessible statistics for example a stock price-earnings-ratio or market capitalization seems to predict abnormal returns, such findings are difficult to reconcile with the efficient market hypothesis and are therefore often referred to as efficient market anomalies. Some researchers have documented these market anomalies that can be exploited to earn excess return. Such market anomalies include; Size effect, Price-earnings ratio prediction, January effect, momentum effect, Holiday effect, seasonal effect, calendar anomalies and weather. Portfolios composed of low price to earnings ratio stocks often outperforms portfolios composed of high P/E ratio. Some researcher have hypothesized, based on the capital asset pricing model and other models relating risk to return, that the reason for this is because low P/E stocks have greater risk, and potentially greater returns. Basu (1977) revealed that portfolios of low price-earnings (P/E) ratio stocks have higher returns than portfolios for high P/E ratio stocks. Osano (2010) found portfolios for firms with low P/E achieved higher returns than portfolios with low P/E ratio at NSE. An interpretation of these results is that returns are not properly adjusted for risk. If two firms have the same expected earnings, the riskier stock will sell at a lower price and lower P/E ratio. Because of the high risk the low P/E ratio stock also have high expected return therefore unless the CAPM beta fully adjust for risk, P/E ratio will act as a useful additional

descriptor of risk and will be associated with abnormal returns if the CAPM is used to establish bench mark performance.

The size effect refers to the negative relation between the stock returns and the equity value of the firm. Banz (1981) was the first to document this anomaly for U.S stocks. He found that on average annual returns for portfolios formed by small firms were consistently higher than the returns for portfolio formed by large firms. The coefficient on size has more explanatory power than the coefficient on the CAPM beta in describing the cross sectional of returns. The size effect has been reproduced for numerous sample periods and for different major security markets around the world (Hawawini and Keim, 2000). An investor can measure firm size at little cost and earn excess returns by exploiting simple rule such as investing in low capitalization stocks. One would not expect such minimal effort to yield large rewards in an efficient market. It has been observed that stock of companies with high book-to-market ratios outperform low book to market ratios. Studies have shown that this effect seems to be independent of the stock beta, and therefore independent of the systematic risk. This effect could be explained by the fact that companies with low book to market ratio tend to be companies investors expect to grow rapidly.

However, rapid growth continuously decline as companies grow larger. Fama and French (1992) showed that the ratio of book value of the firm's equity to the market value of the equity is a powerful predictor of returns across securities. They also showed that dependence of returns on book to market value ratio was independent of the beta suggesting that either high book to market value ratio firms are relatively underpriced or that the book to market ratio is serving as a proxy for a risk factor that affect the equilibrium returns. Earnings announcement can have variable effect on stock prices. Sometimes stock prices go up until earning are announced, the decline on the news or they may decline before the announcement if the expectations are negative. Expectations are usually based on analysts' reports and their forecasts of future earnings. A fundamental principle of EMH is that any new information ought to be reflected in stock prices very rapidly. When the news are made public and there is earning surprise, the stock prices should jump up immediately. A puzzling anomaly is the apparently sluggish response of stock prices to firms earning announcement (Ball and Brown, 1968).

Foster et al (1984) found that the more dramatic the earning surprise, the more the effect it had on stock prices, with positive surprise causing the stock prices to rise for up to two months after the announcement and negative surprise causing decline in stock prices within first several days of the announcement. Not only does this indicate that abnormal returns can be earned by simply watching earning announcement for surprise and respond quickly to them, but it also show that price changes are not as fast as EMH would imply. January effect refers to the tendency for stock market returns to be higher in January than any other month (Rozeff and Kinney 1976). The January effect is particularly strong in small size stock (Kiem, 1983), but also present in large stocks. Kamau (2003) sought to establish if there was turn of the month and January effects on stock prices at the NSE during the period July 1995 to June 2003 using NSE daily closing prices. He found that it did not suffice. Keim (2000) and Reinganum (1983) showed that the small firm effect occur virtually in the month of January.

According to Amihud and Mendelson (1989) Small firm stocks exhibit abnormally high risk adjusted returns because these firms are less analyzed and their stocks are less liquid. Liquidity effect might be a partial explanation of the abnormal returns. Arbel and Strebel (1983) gave another interpretation of small firms in January effect that because small firms tend to be neglected by large institutional traders, information about small firms is less available. This information deficiency makes smaller firms riskier investment that commands high returns. Neglected firms might be expected to earn higher equilibrium returns as compensation for the risk associated with limited information (Merton, 1987). Researcher have documented momentum effect in stock prices; a tendency of poorly performing stocks and well performing stocks in one period to continues that abnormal performance in the following period. Jegadeesh and Tatman (1993) found that recent past winners out performed recent past losers. Momentum is found to be strong and highly significant but this is fundamental (Conrad and Kaul, 1988; Lo and Mackinlay, 1990). One needs to separate any anomalous momentum effect (unwarranted time series predictability) from the fundamental momentum effect (cross sectional dispersion effect and time varying risk premium), which may be very difficult.

Lishenga et al (2011) documented returns of momentum strategies at NSE during the period 1997 to 2007. They found that expected profits are highly predictable for most of the trading strategies from the time series component. Trading by a corporate insider can change the value of

the firm's stock and the level of efficiency determines whether any insider or investor will obtain above normal returns as a result. Investment decision based on information that is not available in the general public either allows the insider to profit or avoid losses. The later was quite evident in the case of Uchumi supermarket where net worth investors disposed off a huge chunk of the firm's shares a few days before the supermarket was put on receivership and suspended from trading at the NSE. The ability of insider to trade profitably in their own stocks has been documented. Stock prices rise after insiders intensively bought shares and fall after intensive sales (Jaffe, 1974; Seyhum, 1986; Givoly and Polman, 1985).

Human Psychological behavior greatly influences stock prices. New information can elicit a frantic market, may cause an increase in stock prices and may make investors disregard rational valuation, preferring to buy the stock to ensure they are not left behind. Fear can cause significant decrease in stock prices when investors rash for exit in an effort to avoid losses. Some anomalies occur once and disappear while others occur repeatedly. While existence of anomalies in the stock market is generally accepted the question of whether investors can exploit them to earn superior returns in the future is a subject that has been on debate. Proponent of the EMH, argue that it is unlikely that anyone could consistently profit from exploiting anomalies. The first problem lies in the need for history to repeat itself. Second, even if the anomalies recurred once trading costs and taxes are taken into account, profit could dwindle down or disappear. Finally any returns will have to be risk adjusted to determine whether trading rules on the anomaly allowed an investor to beat the market. On the other hand some researchers and investors argue that anomalies reflect inefficiencies within market which can be exploited to produce superior returns.

2.3.2 STOCK RETURNS

A successful prediction of stock's future price would yield significant profit for predictor. Some market participants believe that stock price movements are governed by the random walk hypothesis and thus are unpredictable but others disagree and have a myriad of methods and technologies which purportedly allow them to gain future price information. The ability to predict stock price changes based on a given set of information lies behind the notion of market efficiency. Where the market efficiency is low, predictability of the stock price movement is high

Mobarek and Keasey, (2000). Some researchers have obtained evidence in support of random walk hypothesis. This evidence has been found for different market and varying time horizons. Fama (1965) carried out a study on the behavior of stock market prices. He computed serial correlation coefficient and carried out run test in daily price changes of 30 stocks that comprised the Dow Jones industrial average index. He found that the serial correlation coefficient for successive price changes were extremely close to zero; the average for absolute coefficients was 0.026. He also found that the number of actual runs of successive price changes was not significantly different from the expected number of runs. He concluded that daily price changes were independent from previous changes.

Kendall (1964) examined the temporal dependence of UK industrial share prices. He used weekly data for eighteen industries and one composite U.K. stock market indices over the period 1928 to 1938. He could not identify share price trends. There was neither significant correlation between one period's price changes and the previous period change, nor with the price changes of the earlier periods. Roberts (1959) provided evidence of the random walk on Dow Jones industrial average. He argued that security price changes fully reflect the available information set which include all public information, and that suggested that stock market prices were indistinguishable from a series of cumulated random numbers. Dickson and Muragu (1994) examined the informational efficiency and random walk hypothesis on the Nairobi stock exchange using serial correlation and run test. He first created a data base of weekly share price lists for the period January 1979 to December 1988 and selected thirty most actively traded companies as measured by the number of transaction price observations. Using the weekly data, he computed serial correlation coefficient for each of the thirty companies for lags of 1 to 30 weeks. Results from individual serial correlation coefficient indicated that majority of them were not statistically different from zero at 5% level of significance. These results were robust for both weekly and monthly returns. The few significant correlations were seen to be small in absolute values with very little explanatory power. On run test, the actual number of runs was less than expected number of runs in 14 companies; the actual number of runs exceeded the expected number of runs in 14 companies. In 2 companies actual and expected number of runs was equal. He suggested that with proper control over the quality of data and the use of a large number of

data observations the random walk model can be a good description of successive price returns in Nairobi stock exchange.

Githiga (2008) tested the independence of successive weekly average price returns 16 stocks trading at the Nairobi stock exchange over the period 2003 to 2007. He examined the serial correlation between an observation and the lagged observations. He found that autocorrelation coefficient was less than 0.5 but greater than -0.5 throughout the period; no significant correlation between one observation and the lagged. He concluded that price returns at Nairobi stock exchange are independent and one cannot predict future prices based on the past price trends. Anyumba (2010) tested NSE indices using random walk. Variance ratio of NSE-20 share index and all share index in Nairobi (NASI) was assessed for the period March 2004 to April 2009. It was found that NSE-20 share weekly and monthly indices and weekly NASI were unpredictable but monthly NASI was predictable in some case. Random walk hypothesis has been challenged by increasing number of studies that suggest that stock returns are not fully explained by common measures of risk, and other studies that have documented returns predictability across a variety of time horizons. Grossman (1976) and Grossman and Stiglitz (1980) argue that perfectly informational efficient markets are impossibility. If markets were perfectly efficient, there would be no return for gathering information as such little or no reason to trade and markets would eventually collapse. In other word the degree of market inefficiency determines the effort investors are willing to expend to gather and trade on information; hence non-degenerate market equilibrium will arise only when there are sufficient profit opportunities, i.e., inefficiencies, to compensate investors for the costs of trading and information-gathering.

Leroy (1973) and Lucas (1978) argued that the random walk hypothesis is neither a necessary nor sufficient conditions for rationally determined security prices; unforecastable prices need not to imply a well functioning financial market with rational investors and forecastable prices need not to imply the opposite. Various anomalies have been identified relating to calendar periods such as those across weekends and turn of the year. Variable such as market-to-book ratio and size have been shown to explain expected return. Lo and Mackinlay (1988) tested the predictability of stock market return for U.S. market using single variance ratio test methodology. They used 1,216 weekly observations from September 6, 1962 to December 26,

1985. Weekly stock return were derived from the centre for research security price return index (CRSP) table and performed test on both equal and value weighted CRSP indexes. They found that the first order autocorrelation for weekly returns was approximately 30 percent. There was positive autocorrelation for weekly holding period returns. The average variance ratio for individual security was less than a unity implying that there was negative serial correlation on average but statistically insignificant. They claimed that the random walk hypothesis was not valid for weekly stock market returns. For individual securities they argued that returns contained much company specific noise that made it difficult to detect the presence of predictable component. They concluded that the result did not necessary imply the inefficiency of stock price formation.

Sweedey (1988) extended Fama and Blume (1966) study. He examined fifteen Dow Jones stocks which Fama and Blume had found filter rule, earned excess returns over buy and hold strategy. He found that fourteen of these fifteen stocks still produced excess return. These returns exceeded the commission level of some floor brokers and concluded that filter rules could be use to generate profit, however this profit is sensitive to transaction cost and bid-ask spread. Jegadeesh (1990) examined the predictability of monthly returns on individual securities at the new York stock exchange over the period 1934 to 1987. He obtained security returns data from the center for research in security monthly return file. Regression model was fitted separately for each month using the OLS procedure and obtained parameter estimates and test statistics. He found highly significant negative first order serial correlation in monthly returns and significant positive high order serial correlation. He denoted that predictability of stock returns can be attributed either to market inefficiency or to systematic changes in expected returns. He enlightened that the models of time varying expected returns considered in his test were not able to satisfy the empirical regularity.

Parkinson (1984) examined the weak form of efficiency in Nairobi stock exchange over the period 1974 to 1984 using autocorrelation test and run test. He used monthly price data for 50 stocks that were listed on the NSE over the 5 years period of the study. He found that majority of the stocks had negative autocorrelation coefficient. Out of the 50 stocks 11 has first lag serial correlation greater than 0.3. On run test the actual runs were less than expected in 49 out of the 50 stocks. He concluded that there were noticeable patterns of share price and thus random walk

was not a valid description of the share price changes of the Nairobi stock exchange. Kiio (2006) examined the efficiency of the Nairobi stock exchange at the semi strong level by looking at the speed of adjustment of share prices on cash dividends announcement over the period 2000 to 2004. She used daily data for the stocks that constituted the NSE 20 share index. The event of her study was cash dividends announcement. The event window was 21 days; the date of the announcement and 10 trading days before and after announcement in order to capture the reaction over the period. She found that there were negative returns before the announcement date and positive returns after the announcement date. Cumulative adjusted excess return was significant for 10 days before and after the announcement of cash dividend. She concluded that although dividend announcement has impact on share prices at the NSE, the market does not efficiently react to cash dividend announcement in price adjustments.

Kamaruci (2003) examined the relationship between the accounting earnings and share prices using weekly data for 53 publically quoted companies at Nairobi stock exchange over the period 1996 to 2001. He examined the relationship between percentage changes in price and concurrent percentage change in earnings. He used cross tab to determine if an earlier positive change was followed by an increase in earning and if negative change in share prices was followed by a decrease in earning. He found that 60.38% of the companies had their share prices moving in the same direction with the earning. Ngugi (2003) argued that when information disclosure is minimal, say at the firm level, investors assume the worst and therefore discount the price of shares heavily. Firms are therefore driven to disclose information because its news would not be worse than the market would assume. As a result, prices will be less noisy and therefore more accurate, increasing the trading activities with enhanced ability to transact at current prices. Market analysts are diametrically opposed to the notion of efficient market which content that past performance has no influence on future performance. Technical analysts argue that prices gradually adjust to new information and believe that nimble traders can develop systems to detect the beginning of a movement to a new equilibrium. Hence, they hope to buy or sell the stock immediately after its break out to take advantage of the subsequent, gradual price adjustment.

According to Jensen and Bennington (1978), technical analysis is based on three assumptions. The first assumption is that market prices discount all information; this means that everything

that is known and relevant to security price at any given time is reflected in the security price. Therefore all present information relevant to the price of a security is already discounted. If any new information comes out the market will immediately factor it into account after which the information will no longer be relevant to the process of forecasting. The second assumption is that market prices move in trends which persist over a period of time; this implies after a trend has been established, the future price movement is more likely to be in the same direction as the trend. Market prices react slowly and overlong period to new information and the reaction is so slow that one needs not be concerned with the information itself but direction in which prices are moving since when price move in a particular direction whether up or down it will continue to trend. Third assumption is that history tends repeats itself; the repetitive nature of price movement is attributed to market psychology.

In other words market participants tend to provide a consistent reaction to similar market stimuli overtime. In a market increasingly driven by market psychology, fundamentals take a back seat to technical analysis as reliable approach in predicting where the market will go next. The key to successful technical analysis is a sluggish response of stock prices to fundamentals of supply and demand. This prerequisite is diametrically opposed to the notion of efficient market which content that past performance has no influence on future performance Reilly and Brown (2002). According to Jansen et al (2006) much of criticism of technical analysis is rooted in academic theories, specifically EMH but ignores the way market works; in that many investors base their expectations on past earning and track record. Future stock prices can be strongly influenced by investors' expectations; it follows that past price influence future price. Fundamental analysts hold the view that by using publically available information, it is possible to determine the real (intrinsic) value of a security.

To forecast future security prices, fundamental analyst combines economic, industry, and company analysis to derive a stock's current fair value and forecast future value. If fair value is not equal to the current stock price, fundamental analysts believe that the stock is either over or under valued and the market price will ultimately gravitate towards fair value and as consequence they changes their portfolio position. Fundamentalists neither heed the advice of the random walkers nor believe that markets are efficient. But believe that prices do not accurately

reflect all available information and seek out perceived price discrepancies to exploit them. Fundamental analysts use earnings and dividends prospects of a firm, expectation of future interest rates and security prices to determine the present discounted value of all cash flows a security holder will receive from each unit of security Reilly and Brown (2000). Only those analysts who identify firms that a better than everyone else estimate or poorly run firms that are not as bad as their stock prices suggest will be rewarded. The insider dealers believe that they can hedge on price sensitive information which is not in the public domain for companies issuing securities to increase expected gains.

Follower of efficient market hypothesis however disagrees with both the fundamental and technical analysts; the EMH content that it is essentially impossible to beat the market in the long run i.e. produce returns that outperform the market through fundamental or technical analysis. Fama (1976). The rationale for this argument is that since the market efficiently prices all securities on ongoing basis any opportunity for excess returns, derived from fundamental or technical analysis would be almost immediately withered away by the markets' many participants making it impossible for anyone to meaningfully outperform the market over the long term.

2.4 SUMMARY OF REVIEW

Essentially the stock market is vital for economic growth as it ensures the flow of funds to the most productive investment opportunities. It is interesting to note that share price changes either by appreciating or depreciating in a single day, thus share price are determined by supply and demand forces though no full proof system indicates the exact movement of the prices. However the factors behind the increases and decreases in the demand and supply of a particular stock according to Al Tamimi (2007) include company fundamentals, external factors and market behavior .while company fundamental factors are performance of the company, a change in board of directors, appointment of new management, and the creation of new assets, dividends, earnings, etc. external factors refer to government rules and regulations, inflation, other economic conditions, investor behavior, market conditions, money supply, competition, uncontrolled natural or environmental circumstances.

Hartono (2004) in examining the effect of a sequence of positive and negative dividend and earning information on share prices, collected data from Center for Research in Security Prices (CRSP) US between 1979 to 1993. The Results show that the positive recent earning information has significant relation with share prices when it follows negative dividend information, and the negative recent earning information has significant relation with stock prices when it follows positive dividend information. This study shows short-term reaction of stock prices to the earnings and dividend information and does not reflect long-run dynamic relation.

Much of studies on EMH and RWH have been carried out in the developed markets and there is consensus among researchers that these markets are efficient and security price returns follow random walk. On the other hand not much is documented and the consensus seems to break down when the study is extended to emerging market in general and NSE in particular while other studies suggest that stock price returns are predictable, others give a contrary suggestion that stock price are unpredictable and follow a random walk. There have been scores of studies that have documented long term historical anomalies in the stock market that seem to contradict efficient market hypothesis and random walk hypothesis. While the existence of anomalies is generally accepted, the question of whether investors can exploit them to earn superior returns in future is a subject of debate. Investors' evaluation should keep in mind that although they have existed historically, there is no guarantee they will persist in future.

2.5 GAP IN LITERATURE

A large number of empirical studies have been conducted about the determinants of share prices. Due to worldwide changes in share price in recent years, studies on share price determination and factors that affect value of firms which in turn lead to changes in the share prices of firms have received increased attention Adedoyin, (2011). If these factors can be identified, then it makes sense to consider changes in the value of firms to have been driven by these factors. Consequently, changes in share prices may be as a result of volatility in these value-drivers called corporate firm performance or characteristics.

The study therefore aimed at, not only identification of some factors that affects the firms value (share price) but to assess the degree to which these effects impacted firms value and make

good recommendations to fund managers, investor ,corporate managers, directors and other stake holders .This will contribute to Nigerian economic growth and development.

REFERENCES

- Aduda, J., & Chemarum, C. (2010). Market Reaction to Stocks Splits: Empirical Evidence from the Nairobi Stock Exchange. *African Journal of Business & Management (AJBUMA)*, 1: 165 - 184.
- Aharony, J. & Swary, I. (1980). Quarterly Dividend and Earnings Announcements and Stock holder s' Returns: An Empirical Analysis. Retrieved June 5, 2015 from [http://www. Jstor .org /stable/2327176](http://www.Jstor.org/stable/2327176)
- Ahmed, K. M., Ashraf, A. and Ahmed .A (2006). Testing weak form of efficiency for Indian Stock Markets, *Economic and Political Weekly*, 7, 46-56
- Ajayi, R.A., and Mehdian, M. (1994). Tests of Investors Reactions to Major Surprises. *Journal of International Financial Markets, Institutions and Money*, 4(1-2), 115-128.
- Almumani, A.M., (2014), Determinants of Equity Share Prices of the Listed Banks in Amman Stock Exchange: Quantitative Approach, *International Journal of Business and Social Science*, 5(1): 71-80.
- Al-Omar, H. and Al-Mutairi, A. (2008), The Relationship between the Kuwaiti Banks Share Prices and Their Attributes, *Scientific Journal of King Faisal University (Humanities and Management Sciences)*, 9(1): 325-338.
- Al-Qenae, R., Li, C. & Wearing, B. (2002). The Information Content of Earnings on Stock Prices: The Kuwait Stock Exchange. *Multinational Finance Journal*, 16 (3&4), 197-221.
- AL-Shubiri, F., (2010), Analysis the Determinants of Market Stock Price Movements: An Empirical Study of Jordanian Commercial Banks, *International Journal of Business & Management*, 5 (10):137-143.
- Amidu, M. and Abor, J. (2006), Determinants of dividend payout ratios in Ghana, *The Journal of Risk Finance*, (7)2: 136-145.
- Anggraini, R. R; Setiawati, L, and Desembriarto, D. (2004). The Role of Fundamental Analysis and Financial Statements on Economic Crisis in Indonesia. *Journal of National Symposium on Accounting*. Indonesia. p. 218.
- Athanasoglou, P., Brissimis, S., Delis, M., "Bank-Specific, Industry-Specific and Macroeconomic Determinants of Bank Profitability", *Journal of International Financial Markets, Institutions and Money*", 121-136.
- Balkrishnan (1984), Determinants of Equity Prices in India, *Management Accountant*, 19(12): 728-730
- Ball, R., & Brown, P. (1968). An Empirical Evaluation of Accounting Income Numbers. *Journal of Accounting Research*. 6(2), 159-178.

- Bayero, S. (1996). Benefits of the capital market to indigenous enterprises in Nigeria, *Security Market Journal*, special edition, 9, 1 – 86
- Beaver, W. (1968). The information content of annual earnings announcements. *Journal of Accounting Research, Supplement*, 67-92.
- Berger, A. N., Demirgüç-Kunt, A. Levine, R., Haubrich, J. G., (2004). Bank Concentration and Competition: An Evolution in the Making. *Journal of Money, Credit and Banking*, 36, 433- 452.
- Berger, A. N., Mester, L. J. (2003). "Explaining the dramatic changes in the performance of US banks: Technological change, deregulation, and dynamic changes in competition", *Journal of Financial Intermediation*, 12, 57-95.
- Bhana, N. (1991). Reaction on the Johannesburg Stock Exchange to major shifts in dividend policy. *South African Journal of Business Management*, 22(3), 33-40.
- Bhana, N. (2002). The Share Price Reaction on the Johannesburg Stock Exchange for Special (Extra) Dividend Announcements. Retrieved on November 8, 2015 from <http://www.finance24.com>
- Black, F. (1976). Studies of stock price volatility changes. *Proceedings of the 1976 meetings of the business and economics statistics section*, American Statistical association, 177-181
- Brown, P. & Kennelly, J.W. (1972). The Information Content of Quarterly Earnings: An Extension and Some Further Evidence. *Journal of Business*, 45, 403-415.
- Bulmash, S.B and Trivoli, G.W 1991. Time-lagged interactions between stock prices and selected macroeconomic variables. *The Journal of Portfolio Management*, 17(4), 66-67.
- Campbell, A. Y., Lo, A. W., & Mackinlay A. C. (1997). *The Econometrics of Financial Markets*. Princeton NJ: Princeton University Press.
- Campbell, J.Y. and Shiller, R. (1988), The dividend-price ratio and expectations of future dividends and discount factors. *Review of Financial Studies*, 1(3), 195–228.
- Chan, L., Narasimhan J. & Josef L. (1996). Momentum strategies. *Journal of Finance* 51, 1681-1713.
- Chandra, P. (2004). *Investment Analysis and Portfolio Management*. New Delhi: McGraw-Hill
- Chaudhuri, K. & Koo (2001). Volatility of stock return: Importance of Economic Fundamentals. *Economic and Political Weekly*, 3852-3856
- Chaudhuri, K. & Smiles, S. (2004). Stock Market and Aggregate Economic Activity: Evidence from Australia. *Applied Financial Economics*, (14), 121-129.

- Chaudhuri, K. and Wu Y (2004). Mean reversion in stock prices: Evidence from emerging markets, *Managerial Finance*, 30: 22-37
- Chawla, D. and Srinivasan, G. (1987), Impact of Dividend and Retention on Share Price, An Econometric Study, *Decision*, 14(3): 137-140.
- Chen, G., & Firth, M., (1999). The accuracy of profit forecasts and their roles and associations with IPO firm valuations. *Journal of International Financial Management and Accounting* 10 (3), 188, 212.
- Chen, G., Firth, M. & Krishnan, G. (2001). Earnings Forecast Errors in IPO Prospectuses and their Association with Initial Stock Returns. *Journal of Multinational Financial Management*, 11, 225-240.
- Chen, N. F. (1991). Financial Investment opportunities and the macro economy. *Journal of Finance*. 529-554.
- Chen, N. F.; Roll, R. and Ross, S. A. (1986). Economic forces and the stock market. *Journal of Business*, 59(3), 383-403.
- Cheung Y. & Lilian K. (1992). Stock price dynamics and firm size: An empirical investigation. *Journal of finance*, 65(5)
- Chow, K..V. & Denning, K.C. (1993). A simple multiple variance ratio test. *Journal of Econometrics*, 58, 385-401.
- Collins, J. (1957), How to study the behavior of bank stocks, *The Analysts Journal*, 13(2), 109-113.
- Daniel, K., Hirshleifer, D. & Subrahmanyam, A. (1998). Investor Psychology and Security Market Under-and Overreactions. *Journal of Finance* 53, 1839-1885.
- DeBondt, W, &, Thaler, R. (1985). Does the stock market overreact? *Journal of Finance* 40, 793-805.
- Dimitrios, T. (2003). Macroeconomic Factors and Stock Prices in the Emerging Cypriot Equity Market. *Managerial Finance*, 29(4), 87-92.
- Docking, D. S. & Koch, P. D. (2005). Sensitivity of Investor Reaction to Market direction and Volatility: Dividend Change Announcements. *Journal of Financial Research*, 28 (1), 21-41.
- Duett, E. H., Merikas, A. & Tsiritakis, M. D. (1996). A pedagogical examination of the Relationship between operating and Financial leverage and systematic risk. *Journal Of Financial And Strategic Decisions*, 9(3)

- Duffee, G. R., (1995). Stock returns and volatility. *Journal of Financial Economics* 37, 399-420.
- Efobi, U. (2010). The Efficient Market Hypothesis: Realities from the Nigerian Stock Market. *Global Journal of Finance and Management* 2 (2): 321-331.
- Emeni, F. K and Asein E.I (2003). Fundamental analysis of selected firms on the Nigerian Stock Exchange. *Nigeria Journal of Business Administration*, 5(1), 37-54.
- Ewah, S.O.E., Esang, A.E and Bassey J.U (2008). Appraisal of capital market efficiency on economic growth in nigeria, *International Journal of Business and Management*, 3(12), 219-225
- Fama E. F. & Gibbons M. R. (1982). Inflation, real returns and capital investments. *Journal of Monetary Economics*, 9. 297-323.
- Fama, E. F. (1981). Stock Returns, real Activity, Inflation, and Money. *American Economic Review*, 71, 545-564.
- Fama, E.F.(1970). Efficient Capital Market: A Review of Theory and Empirical Work”, *Journal of Finance*. 52, 745-765.
- Fang, H. & Loo, L. (1994). Dollar value and stock returns. *International review of economics and finance*. 3(2), 222-231
- Firth , M., Branson, K., Chee, K. & Gillian Y. (1995) Accuracy of profit forecasts contained in IPO prospectuses. *Accounting and Business Review*, 2(1) 55-83
- Gitman, J.L and Zutter, J.C. (2012), Principles of Managerial Finance, Prentice Hall, 13ed, p 287
- Hamada, R. S. (1972). The Effect of the Firm’s Capital Structure on the Systematic Risk of Common Stocks. *Journal of Finance*, 27, 435-452.
- Hammoudeh, S. Aleisa, E. (2004). Dynamic Relationships among GCC Stock Markets and NYMEX Oil Future. *Contemporary Economic Policy*, 22(2), 250-269.
- Handinicolaou G. & kalay A. (1984) Wealth redistributions or changes in firm value. An analysis around dividend announcements. *Journal of finance economics* 13(1) 35-63
- Hartono, J. (2004). The Recency Effect of Accounting information. *Gadjah Mada International Journal of Business*. 6 (1) 85-116.
- Hasheesh, A. (2003). ‘The Role of Published Accounting Information in Predicting of Stock Prices’, An Applied Study on Listed Corporations on Amman Stock Exchange, Al Basaer Magazine/ Petra University, Amman, issue 2.

- Hobarth, M. L. (2006). Modeling the relationship between financial indicators and company performance - An empirical Study for US listed companies. France: Dissertation Vienna University of Economics and Business Administration.
- Ibrahim, M. H. (1999). Macroeconomic Variables and Stock Prices in Malaysia: An Empirical Analysis. *Asian Economic Journal*, 13(2): 219- 231.
- Ibrahim, M. H. (2003). Macroeconomic Forces and Capital Market Integration: AVAR Analysis for Malaysia. *Journal of the Asia Pacific Economy*, 8 (1), 19-40.
- Jegadeesh, N. & Titman, S. (1993). Returns to buying winners and selling losers: Implications for stock market efficiency. *Journal of Finance*, 48, 65-91.
- Jegadeesh, N. (1990). Evidence of Predictable Behavior of Security Returns. *The Journal of Finance*, 45(3), 881-898.
- Jensen, M. & Bennington, G. (1970). Random walks and technical theories: some additional evidence. *Journal of finance* 25, 469-482
- Johnson, R. & Soenen, L. (2003). 'Indicators of successful companies'. *European Management Journal*, 21(3): 364-369.
- Jorgensen, B., Li, J. & Sadka, G. (2011). Earnings dispersion and aggregate stock returns, *Journal of Accounting and Economics*, 1-20
- Keane, S. M (1983). *Stock Market Efficiency Theory and Implications*, Heritage Publishers.
- Kennedy, S. J. (2003). Analysis of the influence of ROA, ROE, EPS, profit margin, asset turnover, leverage, stock return to the DER: Studies on the stocks included in the LQ-45 in Jakarta stock exchange. Graduate Thesis in Management Science FEUI.
- Khan, A. and Ikram, S. (2012). "Testing the Efficiency of Indian Stock Market Vis-À-Vis Merger and Acquisitions - A Study of Indian Banking Sector". *International Journal of Latest Trends in Finance & Economic Sciences*, 2(2):155-163
- Kormendi, R., & Lipe, L. (1987). Earnings innovations, earnings persistence, and stock returns. *Journal of Business* 60, 323, 345.
- Kukah S.T., Amoo, B. A. & Joseph R. C (2006). Analytical Framework and Empirical Analysis of Transaction Costs and Efficiency in Nigerian Capital Market. CBN: Research and Statistics Department.
- Lee, B. (2006). An Empirical Evaluation of Behavioral Models Based on Decompositions of Stock Prices. *Journal of Business*, 79(1), 393-427.

- Levy, R. (1967). Relative strength as a criterion for investment selection. *Journal of finance*. 2(2), 595-610
- Lo, A.W. & Mackinlay, C. (1990). When are contrarian profits due to stock market overreaction? *Review of Financial Studies* 3, 175-208.
- Maku, O. E. and Atanda, A. A. (2010). Determinants of stock market performance in Nigeria: Long run analysis. *Journal of Management and Organisational Behaviour*, 1(3), 1-16.
- Malkiel, B. (2003). The efficient market hypothesis and its critics. CEPS working paper No.91
- Maysami, R. C. & Koh, T. S. (2000). A vector error correction model of the Singapore stock market. *International Review of Economics and Finance*. 9, 79-96.
- Menaje, P. M. (2012). Impact of Selected Financial Variables on Share Price of Publicly Listed Firms in the Philippines, *American International Journal of Contemporary Research*, 2(9), 98-104.
- Mishra, K. (2009). Indian Capital Market-Revisiting Market Efficiency. *Indian Journal of Capital Markets*. 2, 30-34.
- Mohamad, S., Nassir, A., Kuing, T.K. & Ariff, M., (1994). The accuracy of profit forecasts of Malaysian IPOs. *Capital Markets Review* 2 (2), 46, 69.
- Moncla, B. and Arents-Gregory, M. (2003). 'Corporate performance management: turning strategy into action', *DM Review*, Retrieved from www.dmreview.com on December 11, 2015.
- Naj, M & Rahman, H. (1991). Stock market volatility and macroeconomic variables: International evidence. *Journal of multinational financial management* 1(3) 51-66
- Nzotta, S. M & Okereke, E. J. (2009). Financial deepening and economic development of Nigeria: An empirical investigation. *African Journal of Accounting, Economics, Finance and Banking Research* . 5 (5).
- Okpara, G. (2010). Stock market prices and the random Walk Hypothesis: further evidence from Nigeria. *Journal of economics and international finance*. 2. 49-57.
- Olowe, R. A. (1999). Weak Form Efficiency of the Nigerian Stock Exchange Market: Further Evidence. *African Development Review*, 11(1): 54-68.
- Onaolapo, A. A. & Kajola, S. O. (2010). Capital Structure and Firm Performance: Evidence from Nigeria. *European Journal of Economics, Finance and Administrative Sciences*, 2(5): 70-82
- Pettit, R. (1972). Dividend Announcements, Security Performances, and Capital Market Efficiency with New Stock Issues. *Financial Analysts Journal*. 73-80.

- Ralph I. U & Eriki, P. O. (2001). Inflation and Stock Price Behavior: Evidence from Nigerian Stock Market. *Journal of Financial Management & Analysis*, 20(14),1-10.
- Reber, B. & Caroline F. (2006). Explaining Mispricing of Initial Public Offerings. *Applied Financial Economics*, 16(18) 1339, 1353.
- Rubenstein, M. E. (1973). A Mean-Variance Synthesis of Corporate Financial Theory. *Journal of Finance*, 28. 167-181.
- Schwert, G W. (1990). Stock Volatility and the Crash of 87. *Review of Financial Studies*, Oxford University Press for Society for Financial Studies. 3(1): 77-102
- Skousen, K., Stice, J. & Stice, E. (2007). *Intermediate Accounting*, (16th ed.) Thomson South-Western
- Somoye, R. O. C., Akintoye, I. R. and Oseni, J. E. (2009). Determinants of Equity Prices in the Stock Markets, *International Research Journal of Finance and Economics*, 30: 177-189.
- Srinivasan, P.(2012). Determinants of Equity Share Prices in India: A Panel Data Approach, *The Romanian Economic Journal*,205.
- Subasi, M.,(2011). Earnings Dispersion and the Stock Market Reaction to Aggregate Earnings News. Retrieved on December 15, 2015 from <http://ssrn.com/abstract=1837580>.
- Sudiyatno, B. Puspitasari, E. & Kartika, A. (2012). The Company's Policy, Firm Performance, and Firm Value: An Empirical Research on Indonesia Stock Exchange, *American International Journal of Contemporary Research*, 2(12), 30-40.
- Sufian, F., Chong, R. R. (2008), "Determinants of Bank Profitability in a Developing Economy: Empirical Evidence from Philippines", *Asian Academy of Management Journal of Accounting and Finance*, 4(2): 91-112
- Summers, L. H. (1986). Does the stock market rationally reflect fundamental values? *Journal of Finance* 41(3): 591, 600.
- Sunde, T. and Sanderson, A. (2009). A Review of the Determinants of Share Prices. *Journal of Social Sciences*, 5(3): 188-192
- Uddin, M. B. (2009), Determinants of market price of stock: A study on bank leasing and insurance companies of Bangladesh, *Journal of Modern Accounting and Auditing*, 5(7): 1-7.
- Varaiya, N., Kerin, R., Weeks, D. (1987). "The relationship between growth, profitability, and the firm value", *Strategic Management Journal*, 8: 487, 497.

- Williams, J. B. (1938). *The Theory of Investment Value*. Cambridge, Mass.: Harvard University Press.
- Woolridge, J. R., & Chambers, D. R. (1983). Reverse splits and shareholder wealth. *Financial Management journal*, 12, 5-15.
- Zahir, M. A. (1992), Factors Affecting Equity Prices in India. *The Chartered Accountant*, 40(9): 743 - 748
- Zahir, M., & Khanna, Y(1982), Determinants of stock prices in India, *The Chartered Accountant*; 30(8): 521-523
- Zeitun, R. & Tian, G. G. (2007). Capital structure and corporate performance: Evidence from Jordan. *Australasian Accounting Business and Finance Journal*, 1(4): 3
- Zhao, Xing-Qiu (1999). Stock prices, inflation and output: Evidence from China *Applied Economics Letters*, 6(8), 509-511.

CHAPTER THREE

METHODOLOGY

3.1 RESEARCH DESIGN

The study adopted *ex-post facto* research design to enable us makes use of secondary data to determine the cause-effect relationship between corporate performance and stock prices in the Nigerian banking sector. Asika (2009) maintains that the choice of the design is advisable only when the event being studied have already taken place. This study involves already existing data as no attempt is made to control or manipulate relevant independent variables.

The inability of the researcher to manipulate these variables is a basic feature of *ex-post facto* research design thus, it perfectly suits this research. The dependent and independent variables were observed over a period of eleven (11) years that is from 2007 to 2017.

3.2 NATURE AND SOURCES OF DATA

The population of this study consists of all the twenty one (21) deposit money banks in Nigeria as at 31st December, 2017. The study used judgmental sampling to calculate sample of 10 from, from 14 quoted banks, based on those banks that obtain international authorization within the period under study. Moreover, sampling is only appropriate if the population size is large and if both cost and time associated with obtaining information from the population is high (Swain, 2008).

The data required for this study includes; Access, Diamond, Fidelity, First, FCMB, GTB, Skye, UBA, UBN and Zenith Bank. The sources of data were the publications of the Nigerian Stock Exchange (NSE), Central Bank of Nigeria Statistical Bulletin and www.capitalasset.com.ng, the annual report of the various banks for the years under study. Some components of financial statements of the banks selected were extensively used for the purpose of extracting the relevant performance ratios applicable to our area of study such as earning per share, dividend per share price earning ratio, and return on equity.

3.3 MODEL SPECIFICATION

The model is based on the modification of the empirical models of Hobarth (2006), which statistically demonstrate that least squares estimates are the most reliable regression estimates because of their general quality of minimized bias and variance. The choice of this approach is premised on the Gaus-Markov theorem, which portends that the least squares technique is the best linear unbiased estimator, with which straight line trend equations could be estimated.

The econometric equation (models of Hobarth-2006) is specified as;

$$SR = \beta_0 + \beta_1 QR + \beta_2 ROA + \beta_3 ROE + \beta_4 NPM + \beta_5 EPS + e$$

Where: SR = Stock Returns

β_0 = Coefficient of Intercept (Constant)

$\beta_1 - \beta_5$ = Coefficients of all the explanatory variables

QR = Quick Ratio

ROA = Return on Assets

ROE = Return on Equity

NPM = Net Profit Margin

EPS = Earnings per Share

e = it is an error term.

Similarly, SP_t = Stock Prices at time t

DPS_t = Dividend Per Share at time t

EPS_t = Earnings Per Share at time t

ROE_t = Return on Equity at time t

PER_t = Price Earnings Ratio at time t

μ_t = Error Term

Therefore, the specific model for each of the hypothesis were as follows:

MULTIPLE REGRESSION

MODEL 1: To test the effect of EPS, DPS, ROE, and PER on share prices (SP). The model were specified as:

$$SP_t = \alpha_0 + \beta_1 EPS_t + \beta_2 DPS_t + \beta_3 ROE_t + \beta_4 PER_t + \mu_t$$

MODEL 2: To test the effect of dividend per share (DPS) on share prices.

MODEL 3: To test the effect of return on equity on share prices..

MODEL 4: To test the effect of price earnings ratio on share prices.

Where: α_0 , β_1 , β_0 , β_1 , β_2 , β_3 , β_4 , represent the intercepts and SP_t , EPS_t , DPS_t , ROE_t , PER_t , μ_t are the explanatory variables earlier defined.

APRORI EXPECTATIONS

Changes in the EPS growth rate may influence stock prices more than the actual rate of growth. Acceleration in EPS growth will usually result in a stock price increase. For example: If company A, which has grown earnings 15 percent annually, suddenly reports a 20 and then a 25 percent increase in EPS, its stock price could shoot up 25 or even 50 percent. Conversely, a deceleration in a company's EPS growth can result in a stock price drop.

3.4 DEFINITION OF VARIABLES

(a) SHARE PRICE:

Share price is the price of a share of an equity stock or other financial asset. In layman's terms, the stock price is the highest amount someone is ready to pay for the stock, or the lowest amount that it can be bought for.

(b) EARNING PER SHARE:

Earnings per share (EPS) is designed as a company's profit divided by the outstanding shares of its common stock. The resultant number serves as a sign of a company's profitability. It is

common for a company to report EPS that is attuned for extraordinary_items and potential share dilution. The higher a company's EPS, the more profitable it is considered.

THEORITICAL RELATIONSHIPS OF THE VARIABLES

Stock prices always look to the future and discount, or price in, expectations. Next quarter EPS are likely to be priced into a stock by the time they are announced. If the announced EPS increase meets expectations, the stock price may not move at all, or may even drop. A drop would be the result of traders 'buying the rumor and selling the news,' that is, buying a stock in anticipation of good news and selling it if the news fails to exceed their expectations. If an EPS increase is more than expected, the stock price could jump on the announcement; if an EPS increase is less than expected, the stock price will drop on the 'disappointing' results.

(C) DIVIDEND PER SHARE:

Dividend per share (DPS) is the sum of declared dividends distributed by a company for every ordinary share outstanding. The figure is calculated by apportioning the total dividends paid out by a business, including interim dividends, over a period of time by the number of outstanding ordinary_shares issued. A company's DPS is often obtained using the dividend paid in. DPS is an important metric to investors because the amount a firm pays -out in dividends directly interprets to income for the shareholder, and the DPS is the most candid figure an investor can use to compute his or her dividend payments from owning shares of a stock over time.

(D) RETURN ON EQUITY:

Shareholders' Equity Return on equity (ROE) is a measure of financial performance computed by dividing net_income by total equity. Because shareholders' equity is equal to a company's assets less its debt, ROE could be understood as the return on net assets. ROE is considered as a degree of how management efficiently use a company's assets to create profits.

(E) PRICE EARNING RATIO:

The price-to-earnings ratio (P/E ratio) is the ratio for assessing a company that measures its current share price in relation to its per-share earnings (EPS). The price-to-earnings ratio is also

sometimes recognized as the price multiple or the earnings multiple. It can also be used to relate a company against its own historical record or to liken aggregate markets against one another or over time.

3.5 TECHNIQUES OF ANALYSIS

In achieving the objectives of this study, the hypotheses stated in chapter one were tested using the Ordinary Least Square (OLS) method on multiple regression model. A panel data from all the ten (10) quoted deposit money bank in the Nigerian Stock Exchange. Preliminary test was carried out such as test of normality, multicollinearity test, homoscedastic test and autocorrelation test. The signs and significance of the regression coefficients were relied upon in explaining the nature and influence of the independent variable on the dependent variable as to determine both magnitude and direction of impact. In the analysis we relied on the following statistical tools; Correlation Coefficient (r), Coefficient of Determination (R^2), probability and the student (t) test and f -test. The hypotheses are tested at 0.05 (5%) level of significance.

3.6 DECISION RULE

1. Accept H_0 : if the probability value of t -statistics as computed is not positively signed, otherwise accept alternate hypothesis.

The decision as stated above is applicable to all the hypotheses jointly tested in this study since multiple regression analysis was applied for the purpose of achieving optimal result.

REFERENCES

- Gujarati, D.N. (2004), “*Basic Econometrics*”. New Delhi: Tata McGraw-Hill.
- Gujarati, D.N. and Porter D.C (2009), *Basic Econometrics Fifth Edition*, Singapore: McGraw-Hill International Edition
- Ikeagwu, E.K. (1998), *Groundwork of Research Method and Procedures*. Enugu. Institute of Development Studies. P.2
- Koutsoyiannis, A. (2006), “*Theory of Econometrics: An Introductory Exposition of Econometric Methods*”. Palgrave Publishers Ltd. 2nd Edition.
- Lintner, J. (1965). The valuation of risk assets and the selection of risky investment in stock portfolio and capital budgets. *The Review of Economics and Statistics*, 47 (1), 13-37.
- Koutsoyiannis, A. (2003) *Theory of econometrics* (second edition). New York: Palgrave.
- Nwabuo, P.O. (2001), “*Fundamentals of Statistics*”. Enugu. Chuka Printing Company Ltd.
- Fadare, S. O. (2010), Recent banking sector reforms and economic growth in Nigeria, Middle eastern finance and economics, ISSN 1450-2889.
- Onodugo, V.A. (2004), “*Notes on Research Methodology*”, Enugu: Management Department, UNEC.
- Onwumere, J.U.J. (2009), “*Business and Economic Research Methods*”, Enugu: Vougasen Ltd.
- Rehman, W. (2011), Banking reforms and economic growth: A case study of Pakistan. international conference on financial management and economics, vol,- 405-409.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Presentation of Data

TABLE 4.1: PRICEPER SHARE, EPS, DPS, ROE OF THE TEN BANKS BETWEEN 2007 TO 2017 (NAIRA-~~N~~) AS AT 31ST DECEMBER OF EACH YEAR.

Table 1:Price per share of the banks(k)

SHARE PRICES	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Access Bank Plc	1159	2401	485	950	480	905	960	660	485	587	1045
Diamond Bank Plc	1070	1900	485	750	192	495	750	558	230	88	150
Fidelity Bank Plc	952	1020	240	269	146	226	269	162	150	84	246
First Bank of Nig. Plc	3800	4724	1405	1373	890	1562	1630	880	513	335	880
FCMB	1151	1730	575	750	418	345	369	249	169	110	148
Guaranty Trust Bank	2930	3650	1130	1776	1425	2300	2702	2518	1818	2470	4075
Skye Bank Plc	1196	922	747	920	384	428	440	266	158	50	50
Union Bank	3000	4350	1010	420	1060	735	963	850	690	550	780
UBA Plc	3799	5010	1080	915	259	441	890	430	338	450	1030
Zenith Bank Plc	6614	4345	1360	1501	1218	1863	2487	1841	1405	1475	2564

Source:

www.capitalasset.com.ng

Table 2: Earnings per share (k)

EARNINGS PER SHARE	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Access Bank Plc	87	171	130	63	88	169	159	189	265	250	218
Diamond Bank Plc	91	118	36	9	78	153	197	166	24	15	7
Fidelity Bank Plc	29	46	13	21	19	62	27	48	48	34	61
First Bank of Nig. Plc	175	267	51	102	140	233	216	260	43	30	115
FCMB	63	135	25	49	(61)	77	81	112	24	72	48
Guaranty Trust Bank	162	167	127	163	169	306	317	347	351	467	594
Skye Bank Plc	73.53	180.52	7	77.89	39.51	101	121	137	.299	.285	0
Union Bank	137	232	(537)	830	(1266)	61	36	157	83	92	72
UBA Plc	261	311	10	3	.32	177	152	156	179	204	219
Zenith Bank Plc	202	383	82	110	140	319	301	316	336	412	566

Source:

www.capitalasset.com.ng

Table 3: DPS(k)

DIVIDEND PER SHARE	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Access Bank Plc	40	65	70	50	60	85	60	60	55	65	65
Diamond Bank Plc	55	56	9	15	0	0	30	10	0	0	0
Fidelity Bank Plc	16	30	8	14	14	21	14	18	16	14	14
First Bank of Nig. Plc	100	120	135	60	80	100	110	10	15	20	25
FCMB	35	50	5	35	0	0	30	25	10	10	10
Guaranty Trust Bank	75	95	75	100	110	155	170	175	177	200	270
Skye Bank Plc	35	60	5	40	25	50	30	0	0	0	0
Union Bank	100	100	0	0	0	0	0	0	0	0	0
UBA Plc	120	100	10	50	0	50	50	10	60	75	85
Zenith Bank Plc	100	170	45	85	95	160	175	175	180	202	270

Source:

www.capitalasset.com.ng

Table 4: ROE(%)

RETURN ON EQUITY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Access Bank Plc	21.43	9.22	11.24	6.31	8.48	15.94	14.85	15.49	17.91	15.72	11.75
Diamond Bank Plc	13.1	10.93	4.44	1.24	-12.06	20.31	20.56	12.19	2.64	1.54	4.67
Fidelity Bank Plc	12.46	15.45	9.73	1.41	4.48	3.98	11.3	4.72	7.97	5.25	8.82
First Bank of Nig. Plc	24.43	10.27	3.73	9.81	12.25	17.24	14.97	18.34	2.62	2.1	7.3
FCMB	19.21	11.3	3.1	5.89	-8.42	11.58	11.13	13.8	2.93	8.02	0.79
Guaranty Trust Bank	26.4	12.96	12.32	18.19	22.05	30.8	27.09	26.37	24.04	26.2	27.11
Skye Bank Plc	18.91	17.6	0.01	9.37	4.66	11.83	15.27	7.37	(39.09)	0	0
Union Bank	12.83	21.44	(109.11)	(91.95)	41.41	0.66	1.92	12.07	5.73	5.67	3.79
UBA Plc	12.82	21.16	1.27	0.37	(6.16)	28.45	19.83	18.05	17.93	16.13	14.69
Zenith Bank Plc	16.39	15	6.1	10.29	12.25	21.75	18.72	18	17.18	18.4	21.66

Source:

www.capitalasset.com.ng

Table 5: Price earnings ratio(%)

PRICE EARNINGS RATIO	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Access Bank Plc	13.32	14.04	3.73	15.08	5.45	5.36	6.04	3.49	1.83	2.35	4.79
Diamond Bank Plc	11.76	16.10	13.47	83.33	(2.46)	3.24	3.81	3.36	9.58	5.87	21.43
Fidelity Bank Plc	32.83	22.17	15.46	12.81	7.68	3.65	9.96	3.38	3.13	2.47	4.08
First Bank of Nig. Plc	21.71	17.69	27.55	13.46	6.36	6.70	7.55	3.38	11.93	8.59	7.65
FCMB	18.27	12.81	23.00	15.31	(6.85)	4.48	4.56	2.22	7.04	1.53	3.08
Guaranty Trust Bank	18.09	21.86	8.90	10.90	8.43	7.52	8.52	7.26	5.18	5.29	6.86
Skye Bank Plc	16.27	5.11	106.71	11.81	9.72	4.24	3.64	1.94	(0.53)	0	0
Union Bank	21.9	18.75	(1.88)	0.51	(0.84)	12.05	26.75	5.41	8.31	5.98	10.83
UBA Plc	6.85	14.56	16.11	108.00	305	(8.09)	2.49	5.86	2.76	1.89	4.7
Zenith Bank Plc	32.74	11.34	16.59	12.61	8.70	5.84	8.26	5.83	4.18	3.58	4.53

Source: www.capitalassets.com.ng

4.2 DESCRIPTIVE STATISTICS

TABLE 4.2: DESCRIPTIVE STATISTICS

	DPS____	EPS____	PER____	ROE____	SHP____
Mean	0.575273	1.272032	13.91300	9.455091	12.05755
Median	0.400000	1.135000	7.150000	11.79000	8.850000
Maximum	2.700000	8.300000	305.0000	41.41000	66.14000
Minimum	0.000000	-12.66000	-8.090000	-109.1100	0.500000
Std. Dev.	0.614476	2.028996	32.60351	18.07015	12.23985
Skewness	1.348065	-2.583424	7.064067	-4.289993	1.933504
Kurtosis	4.474977	23.68706	60.27934	27.05274	6.932098
Jarque-Bera	43.28811	2083.816	15952.41	2989.023	139.4027
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	63.28000	139.9235	1530.430	1040.060	1326.330
Sum Sq. Dev.	41.15634	448.7340	115865.8	35591.82	16329.72
Observations	110	110	110	110	110

Source: E-view Results

The descriptive statistics reveals that share prices, dividend per share, earnings per share, return on equity and price earnings ratio were fluctuating within the period under study. Shares price figure shows that the mean was N12.05 while the median was N8.85. The highest aggregate share price was observed in the share price of UBA in 2008 (N50.10) while the least was observed the share price of Skye Bank in 2016 (5k). The descriptive statistics also shows that, there was a positive skewness of share prices (1.93) indicating that the degree of departure from mean of the distribution was positive. Also Kurtosis of $6.93 > 3$ which is the normal value revealed that the degrees of peakedness of share prices within the period of study were high.

The dividend per share figure shows that the mean was N0.57 while the median was N0.40. The highest dividend per share was observed in the dividend per share of Zenith and GTB in 2017 (N2.70k) while the least was observed the dividend per share of the Banks in the years where no dividend was paid (N0.00). The descriptive statistics also shows that, there was a positive skewness of dividend per share (1.34) indicating that the degree of departure from mean of the distribution was positive. Also Kurtosis of $4.47 > 3$ which is the normal value revealed that the degree of peakedness of dividend per share within the period was relatively high.

The earnings per share figure shows that the mean was N1.27 while the median was N1.35. The highest earnings per share was observed in the earnings per share of Guaranty Trust Bank in 2017 (N5.94) while the least was observed in the earnings per share of the Union Bank in 2011 (-N12.66). The descriptive statistics also shows that, there was a positive skewness of earnings per share (-2.58) indicating that the degree of departure from mean of the distribution was positive. Also Kurtosis of $23.68 > 3$ which is the normal value revealed that the degrees of peakedness of earnings per share within the period of study were high.

The return on equity figure shows that the mean was N9.45 while the median was N11.79. The highest return on equity was observed in the return on equity of GTB in 2017 (N27.11) while the least was observed in the return on equity of the Diamond Bank in 2011 (-N12.06). The descriptive statistics also shows that, there was a positive skewness of return on equity (-4.28) indicating that the degree of departure from mean of the distribution was positive. Also Kurtosis of $27.05 > 3$ which is the normal value revealed that the degrees of peakedness of return on equity within the period of study were high.

The price earnings ratio figure shows that the mean was N13.91 while the median was N7.15. The highest price earnings ratio was observed in the price earnings ratio of UBA in 2011 (N305) while the least was observed in the price earnings ratio of the UBA in 2012 (-N8.09). The descriptive statistics also shows that, there was a positive skewness of price earnings ratio (7.06) indicating that the degree of departure from mean of the distribution was positive. Also Kurtosis of $60.27 > 3$ which is the normal value revealed that the degrees of peakedness of price earnings ratio within the period of study were high

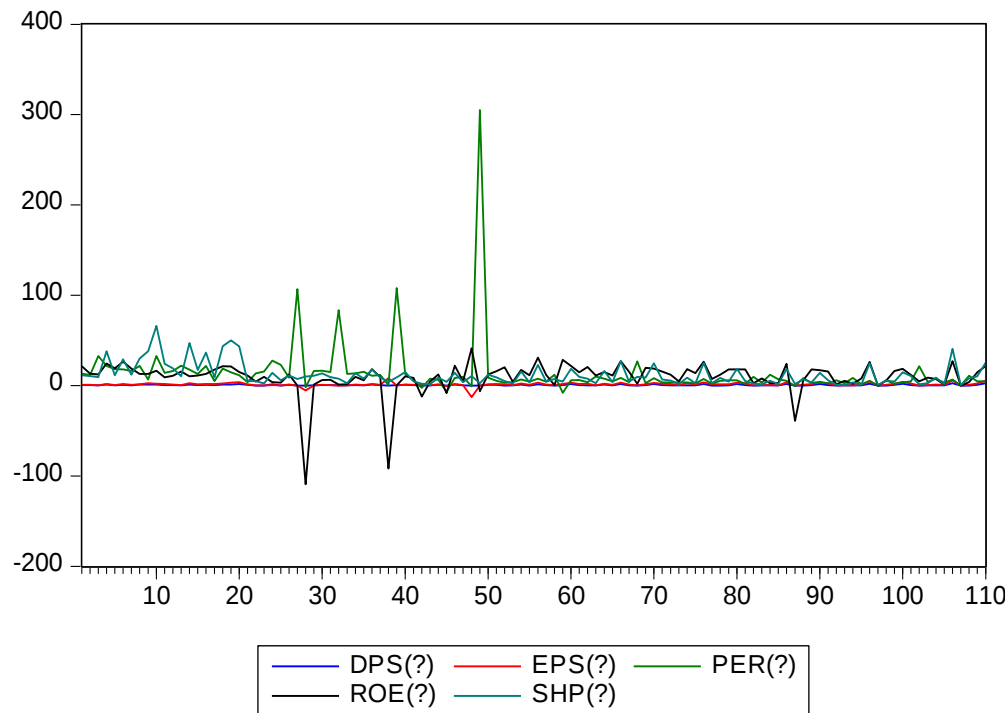
The volatility level as measured by standard deviation shows that prices earning (32.60) fluctuates more than all other financial indicators, followed by ROE (18.07) which implies that share- holders are facing high risk associated with high speculations at the end of every financial year.

NORMALITY TEST

The decision rule for null hypothesis of normal distribution test states that the variables are normally distributed where the computed result is greater than 5%; however jack-bera probability values as displayed on table 4.2 indicated 0.0000 for all the variables under study.

These values are less than 5% which implies that null hypothesis of normality is not accepted, therefore the error terms are not normally distributed among the variables over the years under study.

NORMALITY TEST GRAPH



Source-E-view result

The graph shows the movement of variables with their individual error term behavior over the years under study. Share prices have the highest peakiness at each intervals, followed by earning per share .Others like Price earnings ratio (PER), return on equity (ROE), and dividend per share (DPS) seemed to lie on the zero line but not on the line except earnings per share which is negative during the first half of the year under study.

MULTICOLLINEARITY TEST

The table 4.1, shows the explanatory variables of the panel data set of 2007-2017. By simple observation, there is no evidence of multicollinearity among the variables because there is no

relationship between the explanatory variables. There is evidence of orthogonal, since removing or adding variable to regression does not affect the coefficient of other variables.

HOMOSCEDASTIC TEST

TABLE 4.3

Heteroskedasticity Test: Harvey

F-statistic	1.189455	Prob. F(4,105)	0.4298
Obs*R-squared	4.768317	Prob. Chi-Square(4)	0.1510
Scaled explained SS	5.599625	Prob. Chi-Square(4)	0.1411

Sources: Researchers-computation

A test of heteroscedasticity with Harvey method which shows that there is no evidence of heteroscedasticity, using F-statistic, Obs*R² and Scaled explained Sum of Squares which has a corresponding p-values greater than the critical value of 0.05 as 0.42, 0.15, and 0.14 respectively. Since the p-values are considerably in excess of (0.05).

TABLE 4.4: MULTIPLE REGRESSION RESULTS

Dependent Variable: SHP___

Method: Least Squares

Date: 09/05/19 Time: 09:46

Sample: 1 110

Included observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.948123	1.318322	2.994809	0.0034
DPS___	13.58252	1.945499	6.981510	0.0000
EPS___	0.201899	0.543032	-0.371799	0.7108
ROE___	0.012393	0.054484	0.227461	0.8205
PER___	0.031296	0.027473	1.139138	0.2572
R-squared	0.545696	Mean dependent var		12.05755
Adjusted R-squared	0.424580	S.D. dependent var		12.23985
S.E. of regression	9.284716	Akaike info criterion		7.339005
Sum squared resid	9051.625	Schwarz criterion		7.461754
Log likelihood	398.6453	Hannan-Quinn criter.		7.388793
F-statistic	21.10671	Durbin-Watson stat		2.064131
Prob(F-statistic)	0.000000			

Source: Researcher's Eview Result

Note SHP = Share prices, DPS =Dividend per share, EPS =Earnings per share, Price earnings ratio, ROE = Return on equity.

How well the regression model actually fits the data and how well does the model which contains the explanatory variables actually explain the variation caused on the dependent variable, was taken care of by R^2 which falls between zero (0) and one (1). Therefore R^2 may be ($>$ or $=0$, but < 1). Where it is equal to one, it means a perfect fit. On this base, it results to 54%.

R-squared of 0.54 means that 54% variation of share prices (SHP) was explained by a change in other explanatory variables (DPS, EPS, ROE and PER), using multiple regression model. The remaining 46% variation unexplained. Adjusted R^2 in the result above shows 42% as the best fit of the model for all the explanatory variables jointly tested. There is evidence of negative serial autocorrelation since DW statistic is 2.06 in table 4.4. The standard error measures the statistical noise of the coefficient estimates of t-statistics; however there is no established maximum or minimum acceptable noise level as displayed in table 4.4.

The probability of statistics shows that the overall regression in table 4.4 is statistically significant since the computed result (0.0000) is less than 5% level of significant.

4.3 TEST OF HYPOTHESIS ONE

STEP ONE: Statement of the hypothesis in null form.

The hypothesis is restated in Null form as follows:

H_0 : Earning per share does not have positive and significant impact on share prices of Nigerian banks.

STEP TWO: Interpretation of Regression Result

The coefficient of t-statistics is positively signed (13.58252) which indicated a positive impact while the corresponding value of t-probability is 0.000, it is less than 5% level of significance. Other indicators such as R-squared, f- statistics, and D W statistics is uniformly explained, covering all other hypotheses.

Decision: Thus, we reject the null hypothesis and accept the alternate hypothesis that earnings per share have positive and significant impact on share prices of Nigerian banks.

4.4 TEST OF HYPOTHESIS TWO

STEP ONE: Statement of the hypothesis in null form.

The hypothesis is restated in Null form as follows:

H₀: Dividends per share does not have positive and significant impact on share prices of Nigerian banks

STEP TWO: Interpretation of Regression Result

The coefficient of t-statistics is positively signed (0.201899) which indicated a positive impact while the corresponding value of t-probability is 0.7108, it is greater than 5% level of significance.

Decision: The study reject the null hypothesis and accept the alternate hypothesis that dividend per share have positive and non-significant impact on share prices of Nigerian banks.

4.5 TEST OF HYPOTHESIS THREE

STEP ONE: Statement of the hypothesis in null form.

The hypothesis is restated in Null forms as follows:

H₀: Return on equity does not have positive and significant impact on share prices of Nigerian banks

STEP TWO: Interpretation of Regression Result

The coefficient of t-statistics is positively signed (0.012393) which indicated a positive impact while the corresponding value of t-probability is 0.0.8205, it is greater than 5% level of significance.

Decision: The study therefore, reject the null hypothesis and accept the alternate hypothesis that return on equity have positive and non- significant impact on share prices of Nigerian banks.

4.6 TEST OF HYPOTHESIS FOUR

STEP ONE: Statement of the hypothesis in null form.

The hypothesis is restated in Null form as follows:

H₀: Price earnings ratio does not have positive and significant impact on share prices of Nigerian banks

STEP TWO: Interpretation of Regression Result

The coefficient of t-statistics is positively signed (0.31296) which indicated a positive impact while the corresponding value of t-probability is 0.2572; it is not less than 5% level of significance.

Decision: Therefore, we reject the null hypothesis and accept the alternate hypothesis that earnings per share have positive and non-significant impact on share prices of Nigerian banks.

4.7 DISCUSSION OF THE RESULTS

In the same vein, Ball and Brown (2001) conducted a study to investigate the annual association between annual change in stock prices and annual changes in firms EPS. The result obtained shows that annual changes in stock prices cause firm EPS to change in the following year. Chang and Wang (2008) conducted a study using Ohlson (1995) model on Taiwan firms in 2004. The result indicates that firm's stock prices movement has a positive significant relationship with firm EPS. These are similar result arrived at in our empirical results.

Kennedy (2003) conducted a study in Italy to see the impact of financial ratios on the stock prices. The financial ratios of different companies were calculated from different industries and ran a regression between the financial ratios and share prices to see the impact of ratios on share prices. The study concluded that although financial position of a company does impact its share prices but ratios are not always having impact on share prices. Their empirical result is similar to the result of hypothesis two since dividends per share have a positive and non-significant impact on share price as one of the financial ratios.

Mais (2005) performed research on effect of financial ratios, including NPM, ROA, ROE, DPS, and EPS, on stock price of companies listed on Jakarta Islamic Index in 2004. The outcome of this research explains that statistically all variables except DPS are significant and have positive impact on stock price. The result is in line with the result of this study especially on DPS which has a positive effect on stock price , only the level of the positive impact differs as a result of other variables not really considered in both studies which were eventually taken care of by the error term.

Unlike result of the study, which indicated a positive impact, the outcome below shows a slightly contra view .Sparta and Februwaty (2005) studied the effect of ROE, EPS, and DPS on stock return of manufacturing industry in BEJ using data of 32 manufacturing companies during 1999-2002. The result shows that only ROE that significantly influences stock return, while EPS and DPS have insignificant negative effect on stock return. Mais (2005) performed research on effect of financial ratios, including NPM, ROA, ROE, DPS, and EPS, on stock price of companies listed on Jakarta Islamic Index in 2004. The outcome of this research explains that statistically all variables except DPS are significant and have positive impact on stock price.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter summarizes the various research results that emerged from the study. These results are aligned with the various objectives and hypotheses set out in chapter one. Based on these results, conclusions are drawn and necessary recommendations made.

5.1 SUMMARY OF FINDINGS

1. Findings from hypothesis one shows that earnings per share have positive and significant impact on share prices of Nigerian banks.
2. Findings from hypothesis two shows that dividend per share have positive and non-significant impact on share prices of Nigerian banks.
3. Findings from hypothesis three shows that returns on equity have positive and non-significant impact on share prices of Nigerian banks.
4. Findings from hypothesis four shows that price earnings ratio have positive and non-significant impact on share prices of Nigerian banks.

5.2 CONCLUSIONS

The main thrust of the study was to determine the effect of corporate performance on share prices of quoted Nigerian banks. The results showed a high positive correlation between corporate performance and share prices. Hence, we conclude that an increase in earnings per share, dividend per share, return on equity and price earnings ratio will increase share prices of quoted Nigerian banks and vice versa. It is imperative that banks should strive to develop unique products that are attractive to customers so as to improve on profit maximization and in turn payback the stake holders in the long run.

5.3 RECOMMENDATIONS

Based on the findings and conclusions, the study therefore recommends that:

1. Banks should put more efforts in productive inputs against performance as this will help to boast share prices.
2. Banks should strive in growing their dividend per share through profit maximization as this will help to boast share prices.
3. Banks should be more consistent on their return on equity through effective and efficient service delivery as this will help to boast share prices.
4. Banks should put more efforts in growing their price earnings ratio as this will help to boast share prices.

5.3.1 CONTRIBUTIONS TO KNOWLEDGE

This study radically lends credence to earlier works in this area of finance and banking, thereby contributing significantly to literature by using multiple regression analysis tools to evaluate performance ratios on short run dynamics. This study shows short-term reaction of stock prices to the earnings and dividend information and does not reflect long-run dynamics unlike long-term conventional studies on stock prices.

5.4 RECOMMENDATIONS FOR FURTHER STUDIES

This study contributes to the body of knowledge on the effect of corporate performance on share prices of the Nigerian banks. However in view of the limitations that constrained this study we made the following recommendations for subsequent studies.

1. The study covered only the ten (10) commercial banks licensed with international authorization. Further studies can expand the scope to include commercial banks with regional authorization.
2. The time span can be increased. This study only covered a period of eleven years.
3. A sectoral analysis can be carried out in other to give room for sectoral comparison amongst companies listed on the Nigerian Stock Exchange.

BIBLIOGRAPHY

- Aduda, J., & Chemarum, C. (2010). Market Reaction to Stocks Splits: Empirical Evidence from the Nairobi Stock Exchange. *African Journal of Business & Management (AJBUMA)*, 1: 165 - 184.
- Aharony, J. & Swary, I. (1980). Quarterly Dividend and Earnings Announcements and Stock holder s' Returns: An Empirical Analysis. Retrieved June 5, 2015 from [http://www. Jstor .org /stable/2327176](http://www.Jstor.org/stable/2327176)
- Ahmed, K. M., Ashraf, A. and Ahmed .A (2006). Testing weak form of efficiency for Indian Stock Markets, *Economic and Political Weekly*, 7, 46-56
- Ajayi, R.A., and Mehdiian, M. (1994). Tests of Investors Reactions to Major Surprises. *Journal of International Financial Markets, Institutions and Money*, 4(1-2), 115-128.
- Almumani, A.M., (2014), Determinants of Equity Share Prices of the Listed Banks in Amman Stock Exchange: Quantitative Approach, *International Journal of Business and Social Science*, 5(1): 71-80.
- Al-Omar, H. and Al-Mutairi, A. (2008), The Relationship between the Kuwaiti Banks Share Prices and Their Attributes, *Scientific Journal of King Faisal University (Humanities and Management Sciences)*, 9(1): 325-338.
- Al-Qenae, R., Li, C. & Wearing, B. (2002). The Information Content of Earnings on Stock Prices: The Kuwait Stock Exchange. *Multinational Finance Journal*, 16 (3&4), 197-221.
- AL-Shubiri, F., (2010), Analysis the Determinants of Market Stock Price Movements: An Empirical Study of Jordanian Commercial Banks, *International Journal of Business & Management*, 5 (10):137-143.
- Amidu, M. and Abor, J. (2006), Determinants of dividend payout ratios in Ghana, *The Journal of Risk Finance*, (7)2: 136-145.
- Anggraini, R. R; Setiawati, L, and Desembriarto, D. (2004). The Role of Fundamental Analysis and Financial Statements on Economic Crisis in Indonesia. *Journal of National Symposium on Accounting*. Indonesia. p. 218.
- Athanasoglou, P., Brissimis, S., Delis, M., "Bank-Specific, Industry-Specific and Macroeconomic Determinants of Bank Profitability", *Journal of International Financial Markets, Institutions and Money*", 121-136.
- Balkrishnan (1984), Determinants of Equity Prices in India, *Management Accountant*, 19(12): 728-730
- Ball, R., & Brown, P. (1968). An Empirical Evaluation of Accounting Income Numbers. *Journal of Accounting Research*. 6(2), 159-178.

- Bayero, S. (1996). Benefits of the capital market to indigenous enterprises in Nigeria, *Security Market Journal*, special edition, 9, 1 – 86
- Beaver, W. (1968). The information content of annual earnings announcements. *Journal of Accounting Research, Supplement*, 67-92.
- Berger, A. N., Demirgüç-Kunt, A. Levine, R., Haubrich, J. G., (2004). Bank Concentration and Competition: An Evolution in the Making. *Journal of Money, Credit and Banking*, 36, 433- 452.
- Berger, A. N., Mester, L. J. (2003). "Explaining the dramatic changes in the performance of US banks: Technological change, deregulation, and dynamic changes in competition", *Journal of Financial Intermediation*, 12, 57-95.
- Bhana, N. (1991). Reaction on the Johannesburg Stock Exchange to major shifts in dividend policy. *South African Journal of Business Management*, 22(3), 33-40.
- Bhana, N. (2002). The Share Price Reaction on the Johannesburg Stock Exchange for Special (Extra) Dividend Announcements. Retrieved on November 8, 2015 from <http://www.finance24.com>
- Black, F. (1976). Studies of stock price volatility changes. *Proceedings of the 1976 meetings of the business and economics statistics section*, American Statistical association, 177-181
- Brown, P. & Kennelly, J.W. (1972). The Information Content of Quarterly Earnings: An Extension and Some Further Evidence. *Journal of Business*, 45, 403-415.
- Bulmash, S.B and Trivoli, G.W 1991. Time-lagged interactions between stock prices and selected macroeconomic variables. *The Journal of Portfolio Management*, 17(4), 66-67.
- Campbell, A. Y., Lo, A. W., & Mackinlay A. C. (1997). *The Econometrics of Financial Markets*. Princeton NJ: Princeton University Press.
- Campbell, J.Y. and Shiller, R. (1988), The dividend-price ratio and expectations of future dividends and discount factors. *Review of Financial Studies*, 1(3), 195–228.
- Chan, L., Narasimhan J. & Josef L. (1996). Momentum strategies. *Journal of Finance* 51, 1681-1713.
- Chandra, P. (2004). *Investment Analysis and Portfolio Management*. New Delhi: McGraw-Hill
- Chaudhuri, K. & Koo (2001). Volatility of stock return: Importance of Economic Fundamentals. *Economic and Political Weekly*, 3852-3856

- Chaudhuri, K. & Smiles, S. (2004). Stock Market and Aggregate Economic Activity: Evidence from Australia. *Applied Financial Economics*, (14), 121-129.
- Chaudhuri, K. and Wu Y (2004). Mean reversion in stock prices: Evidence from emerging markets, *Managerial Finance*, 30: 22-37
- Chawla, D. and Srinivasan, G. (1987), Impact of Dividend and Retention on Share Price – An Econometric Study, *Decision*, 14(3): 137-140.
- Chen, G., & Firth, M., (1999). The accuracy of profit forecasts and their roles and associations with IPO firm valuations. *Journal of International Financial Management and Accounting* 10 (3), 188–212.
- Chen, G., Firth, M. & Krishnan, G. (2001). Earnings Forecast Errors in IPO Prospectuses and their Association with Initial Stock Returns. *Journal of Multinational Financial Management*, 11, 225-240.
- Chen, N. F. (1991). Financial Investment opportunities and the macro economy. *Journal of Finance*. 529-554.
- Chen, N. F.; Roll, R. and Ross, S. A. (1986). Economic forces and the stock market. *Journal of Business*, 59(3), 383-403.
- Cheung Y. & Lilian K. (1992). Stock price dynamics and firm size: An empirical investigation. *Journal of finance*, 65(5)
- Chow, K..V. & Denning, K.C. (1993). A simple multiple variance ratio test. *Journal of Econometrics*, 58, 385-401.
- Collins, J. (1957), How to study the behavior of bank stocks, *The Analysts Journal*, 13(2), 109-113.
- Daniel, K., Hirshleifer, D. & Subrahmanyam, A. (1998). Investor Psychology and Security Market Under-and Overreactions. *Journal of Finance* 53, 1839-1885.
- DeBondt, W, &, Thaler, R. (1985). Does the stock market overreact? *Journal of Finance* 40, 793-805.
- Dimitrios, T. (2003). Macroeconomic Factors and Stock Prices in the Emerging Cypriot Equity Market. *Managerial Finance*, 29(4), 87-92.
- Docking, D. S. & Koch, P. D. (2005). Sensitivity of Investor Reaction to Market direction and Volatility: Dividend Change Announcements. *Journal of Financial Research*, 28 (1), 21-41.

- Duett, E. H., Merikas, A. & Tsiritakis, M. D. (1996). A pedagogical examination of the Relationship between operating and Financial leverage and systematic risk. *Journal Of Financial And Strategic Decisions*, 9(3)
- Duffee, G. R., (1995). Stock returns and volatility. *Journal of Financial Economics* 37, 399-420.
- Efobi, U. (2010). The Efficient Market Hypothesis: Realities from the Nigerian Stock Market. *Global Journal of Finance and Management* 2 (2): 321-331.
- Emeni, F. K and Asein E.I (2003). Fundamental analysis of selected firms on the Nigerian Stock Exchange. *Nigeria Journal of Business Administration*, 5(1), 37-54.
- Ewah, S.O.E., Esang, A.E and Bassey J.U (2008). Appraisal of capital market efficiency on economic growth in nigeria, *International Journal of Business and Management*, 3(12), 219-225
- Fadare, S. O. (2010) ,Recent banking sector reforms and economic growth in Nigeria, Middle eastern finance and economics, ISSN 1450-2889.
- Fama E. F. & Gibbons M. R. (1982). Inflation, real returns and capital investments. *Journal of Monetary Economics*, 9. 297-323.
- Fama, E. F. (1981). Stock Returns, real Activity, Inflation, and Money. *American Economic Review*, 71, 545-564.
- Fama, E.F.(1970). “Efficient Capital Market: A Review of Theory and Empirical Work”, *Journal of Finance*. 52, 745-765.
- Fang, H. & Loo, L. (1994). Dollar value and stock returns. *International review of economics and finance*. 3(2), 222-231
- Firth , M., Branson, K., Chee, K. & Gillian Y. (1995) Accuracy of profit forecasts contained in IPO prospectuses. *Accounting and Business Review*, 2(1) 55-83
- Gitman, J.L and Zutter, J.C. (2012), Principles of Managerial Finance, Prentice Hall, 13ed, p 287
- Hamada, R. S. (1972). The Effect of the Firm’s Capital Structure on the Systematic Risk of Common Stocks. *Journal of Finance*, 27, 435-452.
- Hammoudeh, S. Aleisa, E. (2004). Dynamic Relationships among GCC Stock Markets and NYMEX Oil Future. *Contemporary Economic Policy*, 22(2), 250-269.
- Handinicolaou G. & kalay A. (1984) Wealth redistributions or changes in firm value. An analysis around dividend announcements. *Journal of finance economics* 13(1) 35-63

- Hartono, J. (2004). The Recency Effect of Accounting information. *Gadjah Mada International Journal of Business*. 6 (1) 85-116.
- Hasheesh, A. (2003). "The Role of Published Accounting Information in Predicting of Stock Prices", An Applied Study on Listed Corporations on Amman Stock Exchange, Al Basaer Magazine/ Petra University, Amman, issue 2.
- Hobarth, M. L. (2006). Modeling the relationship between financial indicators and company performance - An empirical Study for US listed companies. France: Dissertation Vienna University of Economics and Business Administration.
- Ibrahim, M. H. (1999). Macroeconomic Variables and Stock Prices in Malaysia: An Empirical Analysis. *Asian Economic Journal*, 13(2): 219- 231.
- Ibrahim, M. H. (2003). Macroeconomic Forces and Capital Market Integration: AVAR Analysis for Malaysia. *Journal of the Asia Pacific Economy*, 8 (1), 19-40.
- Jegadeesh, N. & Titman, S. (1993). Returns to buying winners and selling losers: Implications for stock market efficiency. *Journal of Finance*, 48, 65-91.
- Jegadeesh, N. (1990). Evidence of Predictable Behavior of Security Returns. *The Journal of Finance*, 45(3), 881-898.
- Jensen, M. & Bennington, G. (1970). Random walks and technical theories: some additional evidence. *Journal of finance* 25, 469-482
- Johnson, R. & Soenen, L. (2003). "Indicators of successful companies". *European Management Journal*, 21(3): 364-369.
- Jorgensen, B., Li, J. & Sadka, G. (2011). Earnings dispersion and aggregate stock returns, *Journal of Accounting and Economics*, 1-20
- Keane, S. M (1983). *Stock Market Efficiency Theory and Implications*, Heritage Publishers.
- Kennedy, S, J. (2003). Analysis of the influence of ROA, ROE, EPS, profit margin, asset turnover, leverage, stock return to the DER: Studies on the stocks included in the LQ-45 in Jakarta stock exchange. Graduate Thesis in Management Science FEUI.
- Khan, A. and Ikram, S. (2012). "Testing the Efficiency of Indian Stock Market Vis-À-Vis Merger and Acquisitions - A Study of Indian Banking Sector". *International Journal of Latest Trends in Finance & Economic Sciences*, 2(2):155-163
- Kormendi, R., & Lipe, L. (1987). Earnings innovations, earnings persistence, and stock returns. *Journal of Business* 60, 323, 345.
- Koutsoyiannis, A. (2003) *Theory of econometrics* (second edition). New York: Palgrave.

- Kukah S.T., Amoo, B. A. & Joseph R. C (2006). Analytical Framework and Empirical Analysis of Transaction Costs and Efficiency in Nigerian Capital Market. CBN: Research and Statistics Department.
- Lee, B. (2006). An Empirical Evaluation of Behavioral Models Based on Decompositions of Stock Prices. *Journal of Business*, 79(1), 393-427.
- Levy, R. (1967). Relative strength as a criterion for investment selection. *Journal of finance*. 2(2), 595-610
- Lo, A.W. & Mackinlay, C. (1990). When are contrarian profits due to stock market overreaction? *Review of Financial Studies* 3, 175-208.
- Mathis, R. L & Jackson, J. H.(2009). *Human Resource Management*. Mason, OH, USA: South-Western Cengage Learning.
- Maku, O. E. and Atanda, A. A. (2010). Determinants of stock market performance in Nigeria: Long run analysis. *Journal of Management and Organisational Behaviour*, 1(3), 1-16.
- Malkiel, B. (2003). The efficient market hypothesis and its critics. CEPS working paper No.91
- Maysami, R. C. & Koh, T. S. (2000). A vector error correction model of the Singapore stock market. *International Review of Economics and Finance*. 9, 79-96.
- Menaje, P. M. (2012). Impact of Selected Financial Variables on Share Price of Publicly Listed Firms in the Philippines, *American International Journal of Contemporary Research*, 2(9), 98-104.
- Mishra, K. (2009). Indian Capital Market-Revisiting Market Efficiency. *Indian Journal of Capital Markets*. 2, 30-34.
- Mohamad, S., Nassir, A., Kuing, T.K. & Ariff, M., (1994). The accuracy of profit forecasts of Malaysian IPOs. *Capital Markets Review* 2 (2), 46, 69.
- Moncla, B. and Arents-Gregory, M. (2003). 'Corporate performance management: turning strategy into action', *DM Review*, Retrieved from www.dmreview.com on December 11, 2015.
- Naj, M & Rahman, H. (1991). Stock market volatility and macroeconomic variables: International evidence. *Journal of multinational financial management* 1(3) 51-66
- Nzotta, S. M & Okereke, E. J. (2009). Financial deepening and economic development of Nigeria: An empirical investigation. *African Journal of Accounting, Economics, Finance and Banking Research* . 5 (5).

- Okpara, G. (2010). Stock market prices and the random Walk Hypothesis: further evidence from Nigeria. *Journal of economics and international finance*. 2. 49-57.
- Olowe, R. A. (1999). Weak Form Efficiency of the Nigerian Stock Exchange Market: Further Evidence. *African Development Review*, 11(1): 54-68.
- Onaolapo, A. A. & Kajola, S. O. (2010). Capital Structure and Firm Performance: Evidence from Nigeria. *European Journal of Economics, Finance and Administrative Sciences*, 2(5): 70-82
- Pettit, R. (1972). Dividend Announcements, Security Performances, and Capital Market Efficiency with New Stock Issues. *Financial Analysts Journal*. 73-80.
- Ralph I. U & Eriki, P. O. (2001). Inflation and Stock Price Behavior: Evidence from Nigerian Stock Market. *Journal of Financial Management & Analysis*, 20(14),1-10.
- Reber, B. & Caroline F. (2006). Explaining Mispricing of Initial Public Offerings. *Applied Financial Economics*, 16(18) 1339, 1353.
- Rubenstein, M. E. (1973). A Mean-Variance Synthesis of Corporate Financial Theory. *Journal of Finance*, 28. 167-181.
- Schwert, G W. (1990). Stock Volatility and the Crash of 87. *Review of Financial Studies*, Oxford University Press for Society for Financial Studies. 3(1): 77-102
- Skousen, K., Stice, J. & Stice, E. (2007). *Intermediate Accounting*, (16th ed.) Thomson South-Western
- Somoye, R. O. C., Akintoye, I. R. and Oseni, J. E. (2009). Determinants of Equity Prices in the Stock Markets, *International Research Journal of Finance and Economics*, 30: 177-189.
- Srinivasan, P.(2012). Determinants of Equity Share Prices in India: A Panel Data Approach, *The Romanian Economic Journal*, 205.
- Subasi, M.,(2011). Earnings Dispersion and the Stock Market Reaction to Aggregate Earnings News. Retrieved on December 15, 2015 from <http://ssrn.com/abstract=1837580>.
- Sudiyatno, B. Puspitasari, E. & Kartika, A. (2012). The Company's Policy, Firm Performance, and Firm Value: An Empirical Research on Indonesia Stock Exchange, *American International Journal of Contemporary Research*, 2(12), 30-40.
- Sufian, F., Chong, R. R. (2008), "Determinants of Bank Profitability in a Developing Economy: Empirical Evidence from Philippines", *Asian Academy of Management Journal of Accounting and Finance*, 4(2): 91-112
- Summers, L. H. (1986). Does the stock market rationally reflect fundamental values? *Journal of Finance* 41(3): 591, 600.

- Sunde, T. and Sanderson, A. (2009). A Review of the Determinants of Share Prices. *Journal of Social Sciences*, 5(3): 188-192
- Uddin, M. B. (2009), Determinants of market price of stock: A study on bank leasing and insurance companies of Bangladesh, *Journal of Modern Accounting and Auditing*, 5(7): 1-7.
- Varaiya, N., Kerin, R., Weeks, D. (1987). "The relationship between growth, profitability, and the firm value", *Strategic Management Journal*, 8: 487, 497.
- Williams, J. B. (1938). *The Theory of Investment Value*. Cambridge, Mass.: Harvard University Press.
- Woolridge, J. R., & Chambers, D. R. (1983). Reverse splits and shareholder wealth. *Financial Management journal*, 12, 5-15.
- Zahir, M. A. (1992), Factors Affecting Equity Prices in India. *The Chartered Accountant*, 40(9): 743 - 748
- Zahir, M., & Khanna, Y (1982), Determinants of stock prices in India, *The Chartered Accountant*; 30(8): 521-523
- Zeitun, R. & Tian, G. G. (2007). Capital structure and corporate performance: Evidence from Jordan. *Australasian Accounting Business and Finance Journal*, 1(4): 3
- Zhao, Xing-Qiu (1999). Stock prices, inflation and output: Evidence from China *Applied Economics Letters*, 6(8), 509-511.

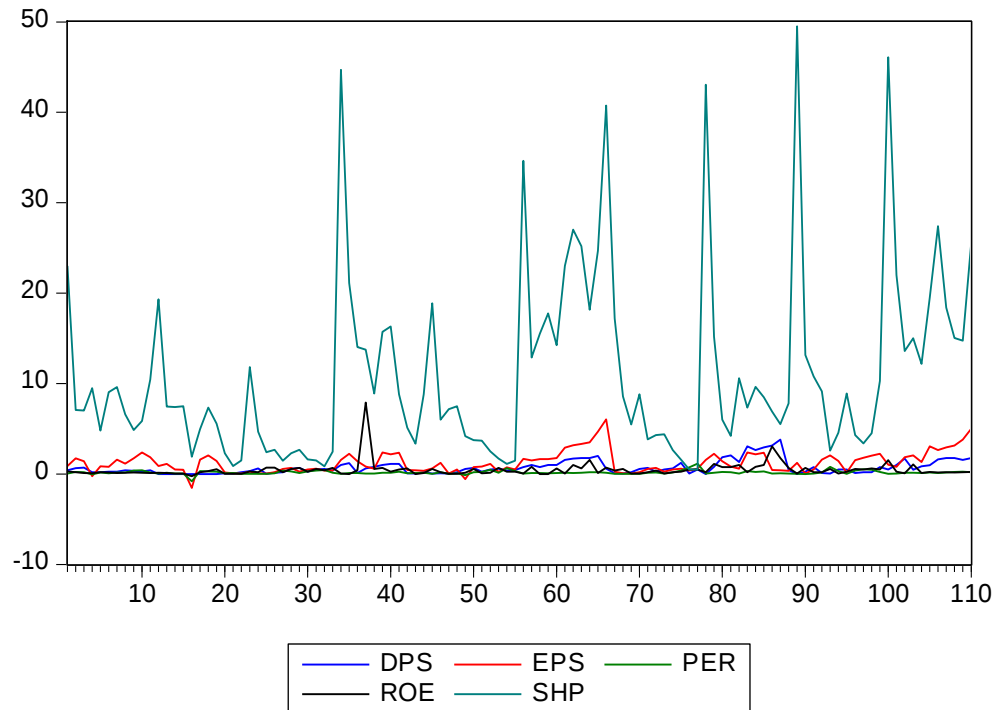
APPENDIX

TABLE 4.2: DESCRIPTIVE STATISTICS

	DPS	EPS	PER	ROE	SHP
Mean	0.703909	1.255909	0.168364	0.456909	10.94664
Median	0.485000	0.880000	0.140000	0.235000	7.500000
Maximum	3.800000	6.030000	1.140000	7.900000	49.50000
Minimum	0.000000	-1.530000	-0.800000	-0.240000	0.500000
Std. Dev.	0.759905	1.175184	0.201137	0.836235	10.30309
Skewness	1.746575	1.228323	0.689986	6.821609	1.812484
Kurtosis	6.174313	5.452148	12.14318	9.10296	6.376211
Jarque-Bera	102.1091	55.22067	391.8842	15279.37	112.4713
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	77.43000	138.1500	18.52000	50.26000	1204.130
Sum Sq. Dev.	62.94262	150.5353	4.409705	76.22255	11570.75
Observations	110	110	110	110	110

Source: E-view Results

NORMALITY TEST GRAPH



HOMOSCEDASTIC TEST

TABLE 4.3

Heteroskedasticity Test: Harvey

F-statistic	1.189455	Prob. F(4,105)	0.3198
Obs*R-squared	4.768317	Prob. Chi-Square(4)	0.3119
Scaled explained SS	5.599625	Prob. Chi-Square(4)	0.2311

Source-Researchers computation

MULTIPLE REGRESSION ANALYSIS

Dependent Variable: SHP

Method: Least Squares

Date: 07/23/19 Time: 15:28

Sample: 1 110

Included observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.230033	1.283999	6.409688	0.0000
DPS	1.687906	1.125563	-1.499611	0.1367
EPS	5.937942	0.732595	8.105359	0.0000
PER	-23.11570	3.848837	-6.005893	0.0000
ROE	0.742083	0.919363	0.807171	0.4214
R-squared	0.552316	Mean dependent var		10.94664
Adjusted R-squared	0.431452	S.D. dependent var		10.30309
S.E. of regression	7.768752	Akaike info criterion		6.982485
Sum squared resid	6337.119	Schwarz criterion		7.105234
Log likelihood	-379.0367	Hannan-Quinn criter.		7.032273
F-statistic	21.67909	Durbin-Watson stat		2.167312
Prob(F-statistic)	0.000000			

Source: Researcher's Eview Result

**LIST OF DEPOSIT MONEY BANKS AND FINANCIAL HOLDING COMPANIES
OPERATING IN NIGERIA
COMMERICAL BANKING LICENCE WITH INTERNATIONAL AUTHORIZATION**

NAME OF INSTITUTION	HEAD OFFICE ADDRESS
ACCESS BANK PLC	999c, Danmole Street, Off Idejo Street, Off Adeola Odeku Street, Victoria Island, Lagos
DIAMOND BANK PLC	Plot 1261, Adeola Hopewell Street, Victoria Island, Lagos
FIDELITY BANK PLC	2, Kofo Abayomi Street, Victoria Island, Lagos
FIRST CITY MONUMENT BANK PLC	Primrose Towers, 17a, Tinubu Street, Lagos
FIRST BANK NIGERIA LIMITED	Samuel Asabia House, 35 Marina, Lagos
GUARANTY TRUST BANK PLC	635, Akin Adesola Street, Victoria Island, Lagos
SKYE BANK PLC	3, Akin Adesola Street, Victoria Island, Lagos
UNION BANK OF NIGERIA PLC	Stallion Plaza, 36 Marina, Lagos
UNITED BANK OF AFRICA PLC	57 Marina, Lagos
ZENITH BANK PLC	Plot 84, Ajoye Adeogun Street, Victoria Island, Lagos

COMMERICAL BANKING LICENCE WITH NATIONAL AUTHORIZATION

CITIBANK NIGERIA LIMITED	27, Kofo Abayomi Street, Victoria Island, Lagos
ECOBANK NIGERIA PLC	21, Ahmadu Bello Way, Victoria Island, Lagos
HERITAGE BANK LIMITED	292b, Ajoye Adeogun Street, Victoria Island, Lagos
KEYSTONE BANK LIMITED	Keystone House, 1, Keystone Crescent, Victoria Island, Lagos
STANBIC IBTC BANK PLC	IBTC Place, Walter Carrington Crescent, Victoria Island, Lagos
STANDARD CHARTERED BANK LIMITED	142, Ahmadu Bello Way, Victoria Island, Lagos
STERLING BANK PLC	Sterling Towers, 20 Marina, Lagos
UNITY BANK PLC	Plot 497, Central Business District, Abogo Largema Street, Abuja
WEMA BANK PLC	Wema Towers, 54 Marina, Lagos Island, Lagos

COMMERICAL BANKING LICENCE WITH REGIONAL AUTHORIZATION

SUNTRUST BANK NIGERIA LIMITED	1, Oladele Olashore Street, Victoria Island, Lagos
-------------------------------	--

NON-INTEREST BANKING LICENCE WITH REGIONAL AUTHORIZATION

JAIZ BANK LIMITED	Kano House, Plot 73, Ralph Shodeinde Street, Central Business District, Abuja
-------------------	---

MERCHANT BANKING LICENCE WITH NATIONAL AUTHORIZATION

CORONATION MERCHANT BANK	St. Nicholas House, 6th Floor, 28A, Catholic Mission Street, P.M.B 12511, Marina, Lagos
FBN MERCHANT BANK	2, Broad Street, P.O. Box 4238, Lagos
FSDH MERCHANT BANK	UAC House, 5th-8th Floor, 1/5 Odunlami Street, P.M.B 12913, Lagos
RAND MERCHANT BANK	12th Floor, Churchgate Towers, 2 Plot PC 31, Churchgate Street, Victoria Island, Lagos

FINANCIAL HOLDING COMPANIES IN NIGERIA

FBN HOLDINGS PLC	Samuel Asabia House, 35 Marina, P.O. Box 5216, Lagos
FCMB GROUP PLC	First City Plaza, 44 Marina, Lagos
STANBIC IBTC HOLDINGS PLC	I.B.T.C Place, Walter Carrington Crescent, P.O. Box 71707, Victoria Island, Lagos