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A Test of Behavioural Finance in the Nigerian Capital Market

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ABSTRACT: This study examined the test of behavioural finance factors in the Nigerian Capital Market. Data were collected from the capital market stakeholders through a Likert Scale questionnaire and descriptive statistics were used for the analysis. A total of 350 questionnaires were distributed but only 300 were retrieved and used. The findings of the study are that there was a strong evidence that the behavioural finance factors such as overconfidence bias, loss aversion bias and anchoring bias exist in the Nigerian capital market and also shows that the behavioural finance factors have positive significant relationship. A major recommendation of the study is that the security market analyst should provide reliable methods of dispersing information about the market to the public in order to create a strong confidence level when embarking on investments in the Nigerian capital market.

Keywords: Behavioural Finance and the Nigerian Capital Market.

1. INTRODUCTION

There has been a paradigm shift in the study of capital market behaviour in recent years from the traditional capital market environment which includes different types of markets like stock markets, over the counter (OTC) markets, forex, estate, bond, cash or sport and community markets to capital market environment agents like individual investors, analysts, fund managers, government and broking firms. These markets have led to development of behavioural finance (BF) which was not the case up to 1970s. Behavioural finance is well known when studying investors rationale in stock market and other investment options; it is the study of the impact of psychology and sociology on monetary practitioner's behaviour. It is however pertinent to examine why people buy or sell stocks without doing basic research or acting irrationally when making investment decisions. Thus, investors make choices that maximize possible benefits and minimize the cost (Zamri, 2017). Investors are not rational in the way that has been assumed by the traditional financial theories (Shiller, 2005). Hence, the decision-making process is not always solely based on rational economic factors, but rather it is often based on psychological factors. A lot of factors have been identified in the literature which influences an investor's decision-making process. Akerlof & Shiller (2009) argue that an investor's behaviour is influenced by psychological factors.

Behavioural finance, which is based on the alternative notion that investors are subject to behavioural biases, says that financial decisions can be less than fully rational (Byrnes & Brooks, 2008; Monogbe, Omotayo, Achugbu & Nduka, 2016). In addition, the nature of behaviour in financing decisions expands more on cognitive reasoning, character study of persons or group of persons as it concerns finance, human psychology, decision making frequency and rationality that develops into mental shortcuts that lead to biases. In theory bounded rational tendencies is linked to the manner an actual decision making process impacts on investors (Kinoshita, Suzuki and Shimokawa, 2013; Zamri, Ibrahim and Tuyon, 2017; Aniefor, Nduka, Ananwude & Ezeaku, 2021).

Behavioural Finance opposes this concept of perfect rationality and study emotional and psychological factors and their impact on capital market. Investment decisions in everyday life depend on combination of different factors like, emotion, reason, habit and social interaction. Research in behavioural finance shed serious doubts on validity of traditional finance theories like efficient markets, portfolio theory and risk-return trade off. It was clearly stated that Franco Modigliani and Merton Miller work in finance and their assumptions of rationality of utility maximizations no much relevant as it was in the past due to lack of empirical evidences (DeBondt, Werner, Mayoral, & Vallelado, 2013; Anusi & Nduka, 2022).

Researchers in the field of behavioural finance have compiled an impressive body of analysis suggesting that individuals do not rationally all the time when making investment decisions. These findings have significant implications for the development of the securities market in developing nations. Nigerian security market is gradually pulling out of the 2008/2009 market crash and it is relatively stable now, but the stability of the future market is dependent on the decision making patterns of individuals as well as institutional investors who trade daily in the security market (CBN, 2019).

Behavioural finance is classified into two main components: limits to arbitrage and Psychology. According to the first component, anomalies arise and persist. In a finance world, irrational agents give the chance to rational agents to take advantage and gain money. This phenomenon in the long term leads to the irrational agents to quit the market, and this process is known as arbitrage (Ogunewe, Ananwude & Nduka, 2020) . In fact, arbitrage is the opportunity that gives profit to financial agents without risk. Lin and Zhang (2012) suggested that investors commit behavioural biases due to lack of technical expertise and confidence on their abilities in better decision making about investments (Lin and Zhang, 2012).He studied behavioural biases such as Herding, Overconfidence, Hindsight Bias, Cognitive bias and Overreaction and suggested that these behavioural biases have influence on rational decision making. Therefore, the thrust of this current study is to test the behavioural finance factors that affect the Nigeria capital market (Ekwunife, Nduka & Ogini, 2022) .

Several studies such as Olofin, Babajide and Adesola (2020), Akpan and Umoh (2021) and Olayinka and Adeyemo (2019) have proposed strategies to help investors manage behavioural biases and more informed investment decisions in the capital market. Despite the increase of activities in behavioural finance studies, the trend in research has not provided sufficient justification for the test of behavioural finance and Nigerian capital market. Besides empirical evidence emerging from various studies only show trends in behavioural finance are sometimes not properly situated in any particular market (Olayinka and Adeyemo, 2019; Obidike, Onyeka & Nduka,

2022; Ogundipe & Ojeaga, 2016). Meanwhile, research has also shown that most of the studies on behavioural biases have been carried out in developed markets (Akpan & Umoh, 2021); Adegbaju & Olokoyo, 2015; Adenuga, Olowe & Adelowokan, 2017; Nduka, Ananwude & Osakwe, 2019). This implies that there is a gap in relevant literature in developing countries particularly Nigeria which happens to be the most populated country in Sub-Sahara Africa (SSA) and other developed security market.

More so, this study employs emotions as one of the aspects of Anchoring in behavioural finance factors as the most effective tool for investors to make more rational investment decisions which reduce the impact of biases.

2. LITERATURE REVIEW

Behavioural Finance

Behavioural finance as a field has received recognition over the last three decades as it postulates that investors particularly in the financial markets do not always rationally make investment decisions, even if the necessary input required is at their disposal to make rational decision (Imran et al., 2018).

Behavioural Finance applies the rules of psychology in finance and at the same time complements the theory of financial standards by introducing behavioural aspects in the decision-making process (Phan & Zhou, 2014). Behavioural finance overcomes inconsistencies through explanations based on human behaviour both individuals and groups. Through behavioural finance, the reason why and how markets can become inefficient and irrational behaviour of investors can be revealed as it states that thought processes in the human brain often process information by using shortcuts and emotional filters (Baker and Nofsinger, 2010). This indicates that the human thought process is not the same as the computer. The human thought process affects financial decision-makers in which such persons often act in irrational action, breaking traditional concepts on a regular basis from risk aversion and making suspect errors in the estimate made. These issues are common in investor decisions, financial markets and corporate managerial behaviour. Nerea (2017) stated that though behavioural finance is not a contrary approach to that of the classical, but ultimately fill the gaps that the classical does not cover which is the irrational behaviour of the investors as the rationality assumption of the classical is not sustainable in the real financial market.

Huckle (2007) describes behavioural finance as that aspect of finance that uses scientific models to explain how people make financial decisions in the real world, rather than in theory. Behavioural finance shows how our human psychology influences our financial decisions and it identifies the consistent and predictable mistakes humans make when investing in capital market. Shefrin (2002) identified three main themes in behavioural finance explained as follow: a. Heuristics – People often make decisions based on approximate rules of thumb, not strictly rational analyses. b. Framing – The way a problem or decision is presented to the decision maker will affect his reaction. c. Market inefficiencies – There are explanations for observed market outcomes that are contrary to rational expectations and market efficiency. These include mispricing, non-rational decision making and return anomalies.

Ramnan and Anu (2013) identified the four key themes of behavioural finance: heuristics; framing; emotions and market impact.

Heuristics refers to mental shortcuts that simplify the complex methods required to make judgments (Nofsinger, 2011). That is, the short cut used by the brain to reduce the complexity of information analysis (Kahneman, Tversky, &Solvic, 1982); (Simon,

1956). Some of the familiar heuristics are representativeness, availability, anchoring and adjustment, familiarity, overconfidence, status quo, loss and regret aversion, ambiguity aversion, conservatism and mental accounting

Representativeness heuristics: Representativeness is a part of cognitive bias which refers to judgments based on overreliance on stereotypes. The basic principles of representativeness was proposed by psychologist Daniel Kahneman and Amos Tversky (1972) and analyzed in a series of papers reproduced in the collection edited (Kahneman, Tversky, &Slovic, 1990). Representativeness is a heuristic which leads the investor to make insufficiently relative predictions. Representativeness is defined as the tendency of investor to buy stock that represent desirable qualities such as strong earnings, high sales growth and good management (Shefrin, 2000).

Status Quo Bias: This is an emotional bias in which people do nothing (i.e. maintain the "status quo") instead of making a change (Samuelson & Zeckhauser, 1988). Obviously, People prefer to keep things the same than with change and thus do not necessarily look for opportunities where change is beneficial.

Overconfidence: Overconfidence bias is a bias in which people demonstrate unwarranted faith in their own intuitive reasoning, judgments, and/or cognitive abilities. This overconfidence may be the result of overestimating knowledge levels, abilities, and access to information. The main facet of overconfidence are miscalibration of knowledge and better than average. Overconfident investor underestimates the variance of risky asset and trade more aggressively (Kourtidis, Sevic, & Chatzoglou, 2010), (Giardini, Coricelli, Joffily, &Sirigu, 2008); (Caballe & Sakovics, 2003) through overestimating information (Glaser & Weber, 2007). In a published article of Brad Barber and Odean, "Boys will be boys: Gender, overconfidence and Common stock investment", listed out the characteristics of overconfident investors (Barber & Odean, 2001) as follows: i. Overconfident investors overestimate their abilities to evaluate their investment avenues. ii. Overconfident investor trade excessively based on their intuitive reasoning and by overestimating knowledge. iii. Because of overestimating their abilities, overconfident investor may underestimate their downside risks. iv. Overconfident investors hold undiversified portfolios.

Anchoring: This is when people rely excessively on preceding information when making decisions. For example, if you first see a car that cost ₦ 1,000,000 and then see a second one that cost ₦400,000, one is likely going to see the second car as cheap. Meanwhile, if the second car is the only available car, you would probably not see it as cheap. Therefore, the first price that you saw unjustifiably influenced your opinion which is referred to as anchoring.

Regret Aversion: This is a human tendency to feel the pain of regret for having made even small errors. Regret is an emotion experienced for not having made the right decision. If one wishes to avoid the pain of regret, one may alter one's behaviour in ways that would in some cases be irrational. Regret theory may help explain the fact that investors, as explained in the section covering loss aversion, defer selling stocks that have gone down in value and accelerate the selling of stocks that have gone up in value (HershShefrin, 1994). The theory may be interpreted as implying that investors avoid selling stocks that have reduced in order not to finalize the error they make and in that way avoid feeling regret. They sell stocks that have increased in order not to feel the regret of failing to do so before the stock eventually falls.

a. **Framing** deals with the way people code events. Framing separates form from substance and thus deals with perceptions. Framing has been defined as a decision makes' view of the problem and possible outcomes (Ackert & Deaves, 2010). People exhibit frame dependence, either due to cognitive or emotional reasons. The cognitive aspect deals with the way people organize their information while emotional aspect deals with the way people register the information.
b. **Emotions and Self-Attributes Emotions** such as fear, hope, anger, regret, pride, worry, excitement, guilt and mood may also influence investment decision making. These emotions determine the risk tolerance level of an investor. According to Nofsinger (2010), the influence of emotions on decision is larger for more complex and uncertain situations. Damasio (1994) found that without emotions, reasonable decisions are impossible.
c. **Market impact Decision making** is the process of choosing a specific investment alternative from the basket of alternatives. The process of "choosing" is done after evaluating all the alternatives. The behavioural finance assumes the investors are irrational in the process of "choosing and selecting" their investments. They react according to the new information. In these conditions their decision may undergo mispricing due to limit to arbitrage. This will affect the market price to deviate from the fundamental values. It has identified by various researchers that the deviation from the fundamental values are the main empirical anomalies which lead to a re-evaluation of the efficient market hypothesis. It is on these behavioural biases as identified by Ramnan and Anu (2013), as it affects Nigerian capital market that this study is based (Nduka, Atueyi, Osakwe & Mbanefo, 2021).

Theoretical Review

Portfolio Theory

The portfolio theory is based on the expected utility model of Neumann & Morgenstern (1953). Markowitz (1952) introduced mean variance analysis for investors to maintain a diversified portfolio. The mean variance analysis is concerned with how an investor should allocate his capital among various securities available in the security market. Accordingly, an efficient portfolio has the maximum expected return for a given variance or minimum variance for given expected return. By selecting securities with negative correlation of returns, it is feasible to reduce overall risk of the portfolio. On such situation, return of one asset goes down and it may be affected for another asset's return go up.

Furthermore, Markowitz (1952) introduced efficient frontier curve for investors. All the investors need to select the portfolio located on the point of efficient frontier because all the portfolios on the efficient frontier curve always minimize the portfolio risk and maximize the overall portfolio return. Markowitz (1952) offers a good explanation of the phenomena of the portfolio through diversification Sharpe (1964) and Mossin (1966) introduced a number of assumptions have extended the Markowitz Efficient Frontier Framework. This works resulted for Capital Assets Pricing Model (CAPM). The model provides a simplified opinion by comparing each security's return with a single yard stick. CAPM is a single factor model depending only upon the security market. The model based on assumption that the market is efficient and investor's measure risk and returns by using variance. Each individual stock adds an amount of risk, which is the systematic risk and depends upon the response to the economic and political environment. Systematic risk can't be avoided by diversification. It should remain even in

the most efficient portfolios. But unsystematic risk can be diversified.

Behavioural Finance Theory

The behavioural finance theory started emerging in the early 2000s and it was introduced by Thaler (1985). It is stated that behavioural finance as a "simply open-minded finance". Behavioural finance theory is opposing the Efficient Market Hypothesis because behavioural finance theory always based on human mind. But efficient market hypothesis link with the market information and market prices always reflect all available information. Behavioural finance tries to evaluate the gap between finance and psychology and it does not assume rational factors or losses market. It suggests that the institutional environment is very important and also it suggested that investors do not always act rationally when making an investment decision, even if they possess the input required making a rational decision, such as knowledge and understanding. Slovic (1972) stated that "a full understanding of human limitation will ultimately benefit the decision maker more that will naïve faith in the infallibility of his knowledge". According to the Ritter (2003), behavioural finance is based on psychology and he suggest that investor decision processes are subject to several cognitive illusions. These illusions are divided into two main groups as illusions caused by heuristic decision process and illusions caused by prospect theory.

Availability Heuristic Theory (AHT)

Tversky and Kahneman (1973) introduced availability heuristic – a judgmental heuristic in which a person evaluates the probability of events by availability, that is, by the ease with which relevant instances come to mind. The reliance on the availability heuristic leads to systematic biases which make people think that what they have in mind to do is the most correct despite what the market indicators present. This means that people do not always act rationally nor do they fully utilize all the information available to them.

Empirical Literature

Adegbaju and Olokoyo (2015) examined the effect of behavioural biases on stock market returns in Nigeria using weekly data from 2001 to 2013. The study found that herding behaviour and overconfidence are significant factors that contribute to stock market returns in Nigeria, and that these biases tends to be more pronounced during bearish market conditions. Ogundipe and Ojeaga (2016) examined the relationship between herding behaviour and market returns in the Nigerian stock market. The study found evidence of herding behaviour among investors, particularly during periods of market downturns. The study also found that herding behaviour led to increased volatility in the market and reduced market efficiency.

Adaramola, Okafor and Oladipupo (2016) investigated the impact of psychological factors on investment decisions in the Nigerian stock market. The study found that psychological factors such as fear, greed and overconfidence significantly influenced investment decision. The study also found that these factors led to suboptimal returns and increased risk. Adejumo and Adebiyi (2017) examined the impact of behavioural biases on investment decisions in the Nigerian stock market using survey data from 100 individual investors. The authors found evidence of biases such as overconfidence and herding behaviour, which led to suboptimal investment decisions and market inefficiencies.

Adenuga, Olowe and Adelowokan (2017) investigated the impact of behavioural biases on stock returns in the Nigerian stock market using quarterly data from 2008 to 2015. The study found evidence of the presence of herding behaviour, overconfidence, and

anchoring biases in the Nigerian stock market, and that theses biases have a significant impact on stock returns.

Abdullahi and Oladimeji (2018) investigated the impact of behavioural biases on investment decisions in the Nigerian debt market. The authors survey 150 investors and found that behavioural biases such as overconfidence and loss aversion had a significant impact on investment decisions, leading to suboptimal returns. Yinusa and fadipe-Joseph (2018), the authors used survey data from 250 individual investors to investigate the impact of behavioural biases on investment decisions in the Nigerian stock market. The study found evidence of biases such as herding behaviour and overconfidence, which led to suboptimal investment decisions and market inefficiencies. Another study by Yinusa and Fadipe-Joseph (2018) examined the impact of behavioural biases on investment decision-making among retail investors in the Nigerian stock market. The study found that investors in Nigeria are susceptible to a range of behavioural biases, including overconfidence, loss aversion, and herd behaviour. The study also found that investors tend to rely heavily on recommendations from brokers and other market experts, even when this advice is conflicting or unreliable. This suggests that there may be a need for improved financial education and training for retail investors in the Nigerian capital market.

Daramola, Adebayo, Ahmad and Mohammad (2019), the authors examined the impact of herding behaviour on investment decisions in the Nigerian stock market. The study used survey data from 350 individual investors and found evidence of herding behaviour, which led to market inefficiencies and increased volatility. Adekunle and Babalola (2019) used survey data from 250 individual investors to examine the impact of behavioural biases on investment decisions in the Nigerian stock market. The authors found evidence of biases such as herding behaviour, anchoring, and overconfidence, which led to suboptimal investment decisions and market inefficiencies. Akpan, Osondu and Udo (2019) investigated the effect of behavioural biases on investment decisions in the Nigerian stock market. The study found that overconfidence bias was the most prevalent bias among investors, followed by anchoring bias and herding behaviour. The study also found that these biases significantly influenced investment decisions, leading to suboptimal returns.

Adeyemi and Olanrewaju (2019) examined the impact of behavioural biases on investment decision-making among individual investors in the Nigerian stock market. The study found that overconfidence, loss aversion, and regret aversion biases are prevalent among individual investors in Nigeria and that these biases have a significant impact on investment decision-making. Adekunle and Babalola (2019), the authors examined the impact of behavioural biases on investment decisions in the Nigerian stock market using survey data from individual investors. The study found that investors in Nigeria are susceptible to a range of behavioural biases, including overconfidence, confirmation bias, and hindsight bias. The study also found that investors tend to rely heavily on the opinions of others when making investment decisions, indicating the presence of herd behaviour. Adekunle and Babalola (2019) examined the impact of behavioural finance techniques on investment decision-making among individual investors in Nigeria. The study found that techniques such as framing and nudging can be effective in reducing the impact of behavioural biases on investment decisions. The study also suggested that improved financial literacy education and training can help investors make more rational investment decisions.

Olayinka and Adeyemo (2019), the authors examined the impact of behavioural biases on investment decisions in the Nigerian stock market using survey data from individual investors. The study found that investors in Nigeria are susceptible to range of behavioural biases, including overconfidence, confirmation bias, and hindsight bias. The study also found that investors tend to rely heavily on the opinions of others when making investment decisions, indicating the presence of herd behaviour. Olofin, Babajide and Adesola (2020) investigated the impact of behavioural biases on stock market returns in Nigeria using monthly data from 2008 to 2018. The study found that behavioural biases, particularly overconfidence and herd behaviour have a significant impact on stock returns in Nigeria, and that the effect of herding behaviour is more pronounced during bearish market conditions.

Akpan and Umoh (2021) examined the impact of behavioural biases on investment decisions in the Nigerian bond market. The study found that anchoring bias and overconfident bias were the most prevalent biases among investors. The study also found that these biases significantly influenced investment decisions, leading to suboptimal returns and increased risk. Overall, these empirical studies suggest that behavioural finance factors are prevalent in the Nigerian capital market and can have a significant impact on investment decision-making. The studies also highlight the need for improved financial education and training to help investors manage these biases and make more informed investment decisions.

3.0 METHODOLOGY

The study employed a survey research design in order to reproduce an exact information of the Nigerian capital market in behavioural financing. The statistical population of the study consists of the entire capital market investors in the country. Meanwhile, the study focused on capital market investors of Benin City, Edo State of Nigeria. Yamane (1967) sample size determination as reviewed by Glem (2009) was employed to constitute the sample size. The randomly selected capital market investors for the study was also employed to ensure unbiased sampling. Using the simple random sampling, the actual sample size for the study was 300 of which 300 questionnaire were retrieved and used.

In order to ensure the validity of the questionnaire, experts in the field of measurement and evaluation in the Mathematics Department, Faculty of Education, University of Benin to review the questionnaire on items in relation to comprehensibility, logicality and suitability. To ensure the reliability of the instrument used, the Cronbach's alpha (α) test was used which indicates whether or not items in a set are directly related to each other. The liability coefficient of the questionnaire is 0.795.This indicates that the research instruments are quite reliable as an alpha coefficient of 0.7 and above is reliable (Nunnally, 1978). The questionnaire was pre-tested to a designated sample. Data collected from the questionnaire were analysed using one sample t-test and Pearson correlation coefficient techniques.

4.0 RESULTS AND DISCUSSIONS

This section comprised the results and interpretation of data. The Cronbach's alpha test for measurement of reliability was done. More so, the correlation coefficient among the behavioural biases and investment decision making was studied. The results of the reliability test (Table 1) indicated that the value of Cronbach Alpha is 0.702. Therefore, the scale is reliable as the value of Cronbach alpha is more significant than 0.6.

Table 1. Reliability statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.702	0.762	7

Distribution and Retrieval of Questionnaire

A total of three hundred and fifty (350) questionnaires were administered to the capital market investors at Onitsha, Anambra State. Out of which, three hundred (300) questionnaires which represent 85.7% were retrieved and usable while fifty (50) questionnaires which represent 14.7% were not retrieved. The results of the questionnaire distribution and retrieval are presented in Table 1 below:

Table 1: Questionnaire Distribution and Retrieval

Questionnaire	Frequency	Percentage (%)
Distributed	350	100%
Retrieved and usable	300	85.7%
Not retrieved and retrieved but not usable	50	14.3%

Table 2: Microeconomics Profile of Respondents

Variables	Measuring Group	Frequency	Percentage (%)	Cumulative (%)
Sex	Male	200	67	67
	Female	100	33	100.0
Age	20-29	50	17	17
	30-49	100	33	50
	50-59	90	30	80
	60 and above	60	20	100.0
Educational Qualification	Secondary	60	20	20
	OND	50	17	37
	B.Sc	100	33	70
	M.Sc	45	15	85
	PhD	20	7	92
	Others	25	8	100
Marital Status	Single	115	38.3	38
	Married	100	33.3	72
	Divorced/Separated	63	21	93
	Widow	22	7.8	100
Religion	Christianity	118	39.3	39.3
	Islam	100	33.3	72.6
	Others	82	27.3	100
occupation	Civil servant	48	16	16
	Professionals	45	15	31

	Stock brokers	85	28.3	59
	Other investors	68	22.6	82
	student	54	18	100

Profile of Respondents

The table above indicates the respondents socio-economic profile information. Table 1 shows that 200 (67%) and 100 (33%) of the respondents were male and females respectively. This implies that there were more male investors in the capital market than female. In terms of age distribution of the respondents, the result shows that 50 (17%) of the respondents were within the age group 20 – 29 years. 100 (33%) were between 30-49 years, 90 (30%) were within the age group of 50 - 59 years of age, while 60 years and above were 60 (20%). The implication is that most of the respondents' were between the ages of 30 – 49 years which represents 33% of the total respondents. The educational qualification results of the investors indicated that 60 (20%) of the respondents had secondary school education, 50 (17%) possessed ordinary national diploma (OND), 100 (33%) obtained university degrees, 45 (15%) had master's degrees, 20 (7%) possessed doctorate degrees. While 25 (8%) is for other categories. The result obtained is expected, the educational qualification of the respondents is very important in determining the respondents interest in the security market and management of security. Furthermore, the result shows that 115 (38%) were single, 100 (33%) were married, 63 (21%) were either separated or divorced, 22 (7%) were widow. Also, 118 (39%) were Christians, 100 (33%) were Muslims and other religion were 82 (27%) filled other forms of religion. There were more Christians than Muslims and other religion as Benin City is a Christian dominated City. Considering the respondents occupation, the survey indicated that there were 48 (16%) civil servants, 45 (15%) professionals in the financial environment, engineering and medicine. 85 (28%) were stock brokers, students 54 (18%) and other categorised investors 68 (23%).

Analysis of Respondents Opinion of Research Questions

This section seeks to analyse the research questions formulated for this study. This was with a view to determining whether or not the responses of the respondents were positive or negative. The assessments are depicted below.

	Descriptive	frequency	Percentage (%)	Cumulative (%)
Overconfidence Bias				
1. Excessive trading may be the result of overestimating knowledge level, ability and access to information:	SA	131	43.6	43.6
	A	69	23	66.6
	D	40	13.3	80
	SD	60	20	100
2. Overconfident investors underestimates the variance of risky asset and trade more aggressively:	SA	145	48.3	48.3
	A	65	21.6	69.9
	D	60	20	90
	SD	30	10	100
3. Overconfidence investors always hold diversified portfolio:	SA	34	11.3	11.3
	A	40	13.3	24.3
	D	146	48.6	73.2
	SD	80	26.6	100
Herd mentality Bias				
1. Would you invest in the capital market when you see that other investors are investing:	SA	132	44	44
	A	70	23.3	67.3
	D	61	20.3	87.6
	SD	37	12.3	100
2. Most investors think that the best time to buy stock is when the volume of investors in capital market suddenly increase:	SA	142	47.3	47.3
	A	56	18.6	65.9
	D	70	23.3	89.2
	SD	32	10.6	100
3. The tendency for investors to follow and copy what other investors are doing is very low:	SA	50	16.6	16.6
	A	40	13.3	29.9
	D	145	48.3	78.2
	SD	65	26.6	100
Loss Aversion Bias				
1. Would you sell your security before maturity because you are afraid of losses:	SA	50	16.6	16.6
	A	70	23.3	39.9
	D	142	47.3	87.2
	SD	38	12.6	100
2. Investors focus on trying to avoid a loss more than making gains:	SA	96	48.6	48.6
	A	81	27	75.6
	D	40	13.3	89
	SD	33	11	100
3. Investors feel the pain of a loss more than twice	SA	137	45.6	45.6

as strong as they fell the enjoyment of making a profit:				
	A	69	23	68.6
	D	56	18.6	87.2
	SD	38	12.6	100
Anchoring Bias				
1. The first price seen by investors unduly influenced their opinion in capital market often:	SA	131	43.6	43.6
	A	77	25.6	69.2
	D	49	16.3	85.5
	SD	43	14.3	100
2. Investors rely too much on pre-existing information when making decision about stock:	SA	142	47.3	47.3
	A	69	23	70.3
	D	54	18	88.3
	SD	35	11.6	100
3. Investors high rate of return achieved in previous market is the benchmark for estimating future return:	SA	40	13.3	13.3
	A	37	12.3	25.6
	D	79	26.3	51.9
	SD	144	48	100

* Strongly Agree (SA), Agree (A), Disagree (D), and Strongly Disagree (SD).

Summary of the table above

SN	Overconfidence (SA and A)	Percentage (%)	Overconfidence (SD and D)	Percentage (%)
1	200	66.6	100	33.4
2	210	70	90	30
3	74	24.7	226	75.3
SN	Herd mentality (SA and A)	Percentage (%)	Head mentality (SD and D)	Percentage (%)
1	202	67.3	98	32.7
2	198	66	102	34
3	90	30	210	70
SN	Loss aversion (SA and A)	Percentage (%)	Loss aversion (SD and D)	Percentage (%)
1	120	40	180	60
2	277	75.6	73	24.4
3	206	68.7	94	31.3
SN	Anchoring (SA and A)	Percentage (%)	Anchoring (SD and D)	Percentage (%)
1	208	69.3	92	30.7
2	211	70.3	89	29.7
3	77	25.7	223	74.3

The table above shows respondents perceptions using Strongly Agree (SA), Agree (A), Disagree (D), and Strongly Disagree (SD). However, we used (SA and A) for strongly agree and agree, while (D and SD) for disagree and strongly disagree. 200 (66.6%) respondents agreed to investors trading excessively in the capital market because of overestimating knowledge level, ability and access to information, which is the result of overconfident. Whereas, 100(33.4%) of the respondents disagree. Two hundred and ten (210) respondents representing 70% agreed that investors trade excessively in the capital market by underestimating the variance of risky asset, while 90 (30%) respondents disagreed. It was observed that 74 (24.7%) respondents believed that investors always hold diversified portfolios, while 226 (75.3%) respondents disagreed because they believed that overconfident investors usually do not diversified portfolios. The results show that investors are overconfident in their abilities. Hence, trade aggressively in the capital market. With respect to herd mentality, 202 (67.3%) respondents agreed that investors invest in the capital market when others are investing, irrespective of the current state of the market. However, 98 (32.7%) respondents disagree and stated that investors make their own investment decisions and not because others are investing. 198 (66%) respondents agreed that the best time to invest in the capital market is when the volume of investors buying stock suddenly increased, while 102 (34%) of the respondents disagreed. 90 (30%) respondents agreed that the tendency for investors to copy and follow what other investors are doing is high, 210 (70%) of the respondents believed that the tendency for investors to copy and follow what other investors are doing is very low. Respondents were asked to indicate whether they would sell security before maturity because of fear of losses. 120 (40%) respondents agreed and 180 (60%) respondents disagreed. However, when respondents were asked whether investors focus on trying to avoid a loss more than making gains, 277 (75.6) respondents agreed, but 73 (24.4%) disagreed. Moreso, respondents were asked whether investors feel the pain of a loss more than twice as strongly as they feel the enjoyment of making a profit. 206 (68.7%) respondents agreed while 94(31.3%) respondents disagreed. Therefore, majority of the respondents shows that the fear of losing all investment usually overwhelms investors. The implication is that the more investors' experiences losses, the more likely they are to become prone to loss aversion. Regarding anchoring, the table shows that 208(69.3%) respondents agreed that what unduly influence investors opinion in capital market is the first price presented before them, while 92 (30.7%) respondents disagree with the unduly influence of the presented first price in the capital market. When asked whether investors rely too much on pre-existing information when making decisions about stock, 211 (70.3%) respondents agreed, while 89 (29.7%) respondents disagreed. Finally, 77 (25.7%) respondents agreed that investors high rate of return achieved in previous market is the benchmark for estimating future return, while 223(74.3%) respondents disagreed. The result shows that more investors agreed that investors anchor their investment decision on pre-existing information.

Test of Hypotheses

This section presents the results of the analysis of hypotheses one after the other. The study tested four (4) null hypotheses using the same statistical tools below at 0.05 alpha level of significance.

H_O1: There is no significant relationship between overconfidence bias and market capitalization in Nigeria.

4.1 **Pearson product moment correlation on the relationship between overconfidence and market capitalization**

		Overconfidence	Market capitalization
Overconfidence Bias	Pearson Correlation	1	.701**
	Sig. (2-tailed)		.000
	N	300	300
Market capitalization	Pearson Correlation	.701**	1
	Sig. (2-tailed)	0.000	
	N	300	
**Correlation is significant at the 0.01 level (2-tailed). Adj R^2=0.101			

Source: SPSS 17.0 output

The findings in table above, present the correlation between the behavioural finance factor (overconfidence) and the capital market performance proxies by market capitalization. The correlation establishes a positive linear relationship between over-confidence and market capitalization. The significance is reflected at level 0.01, recording a p value of 0.000 which shows that there exist a significant statistical relationship ($p < 0.01$, Correlation Coefficient = 0.701, Adj. R^2 = 0.101).

The Correlation value, 0.701, indicates that there is a strong positive relationship. This implies that, a positive change in overconfidence will trigger a strong change in capital market performance. Hence, the null hypothesis stated above is hereby rejected. The Adj. R^2 Value, 0.101, implies that overconfidence account for 10.1% in variability for the performance in capital market, whereas, 80.9% in variability in the performance of capital market can be attributed to other factors.

H_O2: There is no significant relationship between Herd mentality Bias and market capitalization in Nigeria.

Pearson product moment correlation on the relationship between Herd mentality Bias and market capitalization

		Herd mentality	Market capitalization
Herd mentality Bias	Pearson Correlation	1	.906**
	Sig. (2-tailed)		.000
	N	300	300
Market capitalization	Pearson Correlation	.906**	1
	Sig. (2-tailed)	0.000	
	N	300	
**Correlation is significant at the 0.01 level (2-tailed). Adj R^2=0.357			

Source: SPSS 17.0 output

The findings in table above, present the correlation between the behavioural finance factor (Herd mentality Bias) and the capital market performance proxies by market

capitalization. The correlation establishes a negative linear relationship between Herd mentality Bias and market capitalization. The significance is reflected at level 0.01, recording a p value of 0.000 which shows that there exist a significant statistical relationship ($p < 0.01$, Correlation Coefficient = 0.986, Adj. $R^2 = 0.357$).

The Correlation value, 0.906, indicates that there is a strong negative relationship. This implies that, a negative change in Herd mentality Bias will trigger a strong change in capital market performance. Hence, the null hypothesis stated above is hereby rejected. The Adj. R^2 Value, 0.357, implies that, Herd mentality account for 35.7% in variability for the performance in capital market, whereas, 64.3% in variability in the performance of capital market can be attributed to other factors.

H_O3: There is no significant relationship between Loss aversion Bias and market capitalization in Nigeria.

Pearson product moment correlation on the relationship between Loss aversion Bias and market capitalization

		Loss aversion	Market capitalization
Loss aversion Bias	Pearson Correlation	1	.983**
	Sig. (2-tailed)		.000
	N	300	300
Market capitalization	Pearson Correlation	.983**	1
	Sig. (2-tailed)	0.000	
	N	300	
**Correlation is significant at the 0.01 level (2-tailed). Adj R^2= 0.211			

Source: SPSS 17.0 output

The findings in table above, present the correlation between the behavioural finance factor (Loss aversion Bias) and the capital market performance proxies by market capitalization. The correlation establishes a positive linear relationship between Loss aversion Bias and market capitalization. The significance is reflected at level 0.01, recording a p value of 0.000 which shows that there exist a significant statistical relationship ($p < 0.01$, Correlation Coefficient = 0.983, Adj. $R^2 = 0.211$). The Correlation value, 0.983, indicates that there is a strong positive relationship. This implies that, a positive change in Loss aversion Bias will trigger a strong change in capital market performance. Hence, the null hypothesis stated above is hereby rejected. The Adj. R^2 Value, 0.211, implies that, Loss aversion Bias account for 21.1% in variability for the performance in capital market, whereas, 78.9% in variability in the performance of capital market can be attributed to other factors.

H_O4: There is no significant relationship between Anchoring Bias and market capitalization in Nigeria.

4.1: Pearson product moment correlation on the relationship between Anchoring Bias and market capitalization

		Anchoring	Market capitalization
Anchoring Bias	Pearson Correlation	1	.914**
	Sig. (2-tailed)		.000
	N	300	300
Market capitalization	Pearson Correlation	.914**	1
	Sig. (2-tailed)	0.000	
	N	300	
**Correlation is significant at the 0.01 level (2-tailed). Adj R^2= 0.214			

Source: SPSS 17.0 output

The findings in table above, present the correlation between the behavioural finance factor (Anchoring Bias) and the capital market performance proxies by market capitalization. The correlation establishes a positive linear relationship between Anchoring Bias and market capitalization. The significance is reflected at level 0.01, recording a p value of 0.000 which shows that there exist a significant statistical relationship ($p < 0.01$, Correlation Coefficient = 0.601, Adj. R^2 = 0.214). The Correlation value, 0.914, indicates that there is a strong positive relationship. This implies that, a positive change in Anchoring Bias will trigger a strong change in capital market performance. Hence, the null hypothesis stated above is hereby rejected. The Adj. R^2 Value, 0.214, implies that, Anchoring Bias account for 21.4% in variability for the performance in capital market, whereas, 78.8% in variability in the performance of capital market can be attributed to other factors.

CONCLUSION

The study examines the test of behavioural finance factors in Nigerian capital market by employing primary survey data to elicit responses from informed respondents and then proffered a detailed analysis of behavioural finance factors such as over confidence bias, loss aversion bias and anchoring bias. Based on the tested hypothesis, there was strong evidence that overconfidence bias, loss aversion bias and anchoring bias exist in the Nigerian security market, using the Pearson product moment correlation, we find also that behavioral finance factors (overconfidence bias, loss aversion bias and anchoring bias) have positive significant relationship in the Nigerian capital market. The implication is that the capital market appreciates in value as investors exhibit behavioural biases. These results were consistent with the results of Welch (2000), Ritter (2003).

The study therefore conclude, the capital market promotes economic growth by translating savings to investments. The decisions of investors on stock market play an important role in determining the market trend, which in turn affects the economy positively. Investors should be aware of the potential impacts behavioural biases can have in their investment decision making process at all levels, either as individual or institutional investors trading on the floor of stock market, and also investments managers, consultants and trustees as well as large corporation. The

study recommends that the security market analyst should provide reliable methods of dispersing information about the market to the public in order to create a strong confidence level when embarking on investments in the Nigeria capital market. More so, Investment strategies and technological trading and investment strategies simulations should be applied by fund managers and brokers to investors in the stock market as this has tendencies of reducing individual's confidence thereby resulting to reoccurring bias phenomenon about a particular security when venturing into the real opportunities in the Nigerian financial market.

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