THE ROLE OF STOCK EXCHANGE MARKET IN INVESTOR'S DECISION MAKING: THE CASE STUDY OF DAR ES SALAAM STOCK EXCHANGE (DSE)

By,

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CERTIFICATION

We, the undersigned, certify that have read and hereby recommend for the acceptance by Mzumbe University, a dissertation entitled **The Role of Stock Exchange Market in Investor's Decision Making: The Case Study of Dar Es Salaam Stock Exchange (DSE)**, in partial fulfillment of the award of degree of Masters of Accounting and Finance (MSc. A&F) of Mzumbe University Dar es Salaam Campus College

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I, **Lawrence J. Sangawe**, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University on a similar or any other degree award.

Signature ……………………………….

Date…………………………………….

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DEDICATION

I dedicate my dissertation work to my family and many friends. A Special feeling of gratitude to my loving wife, Rachel John whose words of encouragement and push for tenacity ring in my ears. My kids Laura and Abban have never left my side and are very special. I also dedicate this dissertation to my many friends who have supported me throughout the process.

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LIST OF ABBREVIATIONS

BOT	Bank of Tanzania
CMSA	Capital Markets and Securities Authority
CMSA	Capital Markets and Securities Authority
COSSE	Committee of SADC Stock Exchanges
DSE	Dar es Salaam Stock Exchange
SME	Stock Market Exchange
SPSS	Software Package for Statistical Sciences
TOL	Tanzania Oxygen Limited
URT	United Republic of Tanzania
UTT	Unit Trust of Tanzania

ABSTRACT

The study on the role of stock exchange market in investor's decision making was conducted at Dar es Salaam Stock Exchange (DSE). The objectives of the study were: to identify Stock Exchange Market (SEM) factors that influence investors' decision making; to identify factors that influence investors to invest in DSE and to examine barriers to the development of securities market in Tanzania. A case study design was used, whereas a sample of 70 respondents was involved. The study used purposive sampling, Purposive sampling is a sampling technique in which the person who is selecting the sample is who tries to make the sample representative, depending on his opinion or purpose, thus being the representation subjective. Questionnaires and interview were used in collecting primary data.

The study found that out of 70 respondents 30 (43%) identified past performance of the company's stock as a major factor influencing investors decision making. Also, the study found majority of the respondents 37 out of 70 that is (53%), identified company's reputation is the basic factor for Tanzania investors to invest in DSE. Moreover, the study found majority of the respondents (61.7%) identified poverty and the domestic investment environment as the major obstacle in the development of securities market in Tanzania. The study concludes that there a different factor influence investors' decision making. These involve; past performance of the company's stock dividend policy stock broker's recommendation and government has a share in the company. Also, the study concludes that company reputation is a major factor that influences investors to invest in DSE. The study recommends that the investors need to analysis the investment factors carefully using the reasonable business knowledge before making an investment decision

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Problem

Over the last two decades, a large number of countries, both developed and developing, have implemented significant capital market reforms, including stock market liberalization, improvements in securities clearance and settlements systems, and the development of regulatory and supervisory frameworks (Bajpai, 2003; Endo, 2002). These reforms, together with improved macroeconomic fundamentals and capital market-related reforms, such as the privatization of state-owned enterprises and the shift to privately managed defined contribution pension systems, were expected to foster domestic financial development (Henry, 2000).

Tanzania as one of those countries has been undertaking a number of political and economic reforms for more than a decade now. One of the steps taken when reforming economic sector is the establishment of capital markets. In 1994, the Tanzania government enacted Capital Markets and Securities Act of 1994, which established the Capital Markets and Securities Authority (CMSA) (Lwiza and Nwanko, 2006). There are a number of reasons why governments have found it necessary to develop capital markets in their countries. With regard to Tanzania, the underlying reason for the development of capital markets is the transition of the country's economy from a "planned" economy, dominated by parastatal enterprises, towards a "market" economy, where the private sector is expected to play an increasingly important role (Muganga, 2005).

Securities Markets are a critical component of many economies and the regulation of securities markets can be fundamental to a country’s financial development and integration into global market (Madamba, 2001). Securities are any form of ownership that can be easily traded on a secondary market, such as stocks and bonds. It also includes their derivatives, such as futures contracts, options, or mutual funds.

Securities market refers to a place or places where securities are bought and sold, the facilities and people engaged in such transactions, the demand for and availability of securities to be traded, and the willingness of buyers and sellers to reach agreement on sales, while the capital markets are those institutions and arrangements that deal with longer-term instruments such as bonds, equities and mutual funds (Williams, 2004).

It may be argued that, by functional classification, capital markets play three main roles. First, long term funds can be raised by companies from those with funds to invest, such as financial institutions and private investors; in fulfilling this role, they act as primary markets for new issues of equity and debt (Kibola, 2008). Second, capital markets provide a ready means for investors to sell shares and bonds they own, or to buy additional ones to increase their portfolios. In fulfilling this role, the capital markets act as secondary markets for trading existing securities. Third, the markets provide mechanisms for trading future and contingent claims, based on the values of the underlying assets; hence the derivatives market (Cohn, 2000).

As the Tanzania economy attempt to develop its private sectors, it is becoming clear that the growth of equity markets can offer an important catalyst for sustainable development. This is achieved in a number of interrelated ways: first, an efficient stock market is a source of equity finance for corporations, thereby enabling them to raise long-term equity capital. In addition, the development of a stock market will attract inflows of foreign capital and will strengthen linkages between domestic and international capital markets. Equity market development can facilitate privatization programs and encourage domestic savings and investment (Kibola, 2008).

Local securities markets play a vital role in a country's financial system. They improve risk management capabilities, access to domestic and foreign financing, pricing signals, and corporate governance. Current trends, particularly the recent financial sector crises, growth in domestic institutional investors, and reduced capital flows to emerging market countries increase the need to support their growth and development. The securities market broadens ownership, allowing participation of small investor, and also allowing price discovery through market forces, which are demand for and supply of securities. The securities market enables individuals to share the increased wealth provided by competitive enterprises (Madamba, 2001).

The securities market also provides a market place for purchase and sale of securities and thereby ensures transferability of securities, which is the basis for the joint stock enterprise system. The liquidity available to investors does not inconvenience the enterprises that originally issued the securities to raise funds (Kibola, 2008). The existence of the securities market makes it possible to satisfy simultaneously the needs of the enterprises for capital and of investors for liquidity. The liquidity the market confers and the yield promised or anticipated on security encourages people to make additional savings out of current income. In the absence of the securities market, the additional savings would have been consumed otherwise. Thus the provision of securities market results in net savings. The securities market enables a person to allocate his savings among a number of investments. This helps him to diversify risks among many enterprises, which increases the likelihood of long term overall gains (Cohn, 2000).

1.2 Statement of the Problem

Despite of the role played by stock exchange market in improving business expansion, investors' response to DSE is still small (Muganga, 2005). This sluggish rate of participation in the securities market industry prompted the researcher to conduct the research so as to uncover the drivers for active market development in the country. Most business owners and managers decide to invest in stock markets with the aim of becoming part and parcel of the investments and even own the investments from which they benefit when the company pays dividends or when stock prices increases (Kibola, 2008). However many investors buy stocks for the purpose of control over the investments. Regularly shareholders need to own specific number of shares to be in the board of directors who can make strategic decision and set directions for the firms.

Notwithstanding significant reforms made on capital market, plus notable developments of securities market in the country, the public' responses is still small. From available statistics, only about 116,651 Tanzanians own shares of listed securities at DSE (Lwiza, and Nwanko, 2006). Moreover, only eleven companies including three cross-listed companies have listed their shares at the bourse, and only four corporate and eight government bonds have listed at the bourse (Muganga, 2005). Therefore, the study intends to investigate the role of stock exchange market to investor's decision making.

1.3 Objectives of the Study

1.3.1 General Objective

Generally, the study intended to asses the role of Stock Exchange market in investors' decision.

1.3.2 Specific Objectives

Specifically, the study intended

i. To identify SEM factors that influence investors' decision making.
ii. To identify factors that influence investors to invest in DSE.
iii. To examine barriers to the development of securities market in Tanzania.

1.4 Research Questions

The study was guided by the following specific questions:

i. What are SEM factors that influence investors' decision making?
ii. What are factors that influence investors to invest in DSE?
iii. What are the barriers to the development of securities market in Tanzania?

1.5 Significance of the Study

The study findings are expected to be of significance to the following groups:-

i. It will draw recommendations for remedial actions of improving the existing stock exchange policies and operational operations,
ii. Its findings will provide framework, which the DSE can utilize in future, and necessary corrective measures taken.

iii. Its findings will assist the investors to understand the main DSE performance indicators, that will help them to make investment decisions.

iv. The study findings will be used as reference for further discussion and as a reading material and reference to academicians, investing community and a public at large.

1.6 Research Hypothesis

The study addressed the following hypothesis questions

H_1: SEM factors influence investors' decision making

H_0: SEM factors does not influence investors' decision making

H_1: Capital availability influence investors to invest in DSE

H_0: Capital availability does not influence investors to invest in DSE

H_1: Lack of awareness is one of the barriers for the development of securities market

H_0: Lack of awareness is not one of the barriers for the development of securities market

1.7 Limitation of the Study

Firstly; the study was conducted in Dar es Salaam Stock Exchange (DSE) only due to time and shortage of fund, if fund were available and enough, it would be conducted beyond the borders of Tanzania so as to get in-depth view of the study.

Secondly; basing on the fact that there is no study conducted in Tanzania concerning the role of SEM to investor's decision making focusing on DSE as the case study, this study lacked some of the literature and empirical review of Tanzania, hence it relied on literature from outside Tanzania.

Thirdly, it is also possible that some of the respondents were not provided their true opinions during the interviews because they regard some of the questions as sensitive. However it is the researcher expectation that these groups were small and we assume that they were not affected by the overall results. Unavailability and unwillingness by some respondents for interviews and discussions might be a problem. Some of the respondents were unwilling to participate for interviews and discussions.

1.7 Delimitation of the Study

The researcher explained the significance of the study to the respondents and the country overall. These boosted the participation of respondents to the study. Moreover, the study used online source along with text books from the library. Furthermore, the study concentrated with case study because covering the whole population would involve high cost.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents literature review of the study in line with the objectives of the study. The chapter puts down theoretical and empirical literature review. The first section of the chapter gives definition of the key terms whereas major factors that affect the stock market are discussed in second section. Section four gives capital and security market infrastructure in Tanzania. The last section of the chapter presents conceptual framework.

2.2 Definition of the Operational Terms

2.2.1 Investors

According to Ziorklui, (2001) investor is someone who provides (or invests) money or resources for an enterprise, such as a corporation, with the expectation of financial or other gain. These are Individuals who commits funds to the investment with the expectation of financial return. Generally, the primary concern of an investor is to minimize risk while maximizing return, as opposed to a speculator, who is willing to accept a higher level of risk in the hopes of collecting higher-than-average profits (Horgan, 1999; Amine, 2012).

2.2.2 Capital Market

According to Hunnurkar, (2006), capital market refers to organized and regulated financial market where securities (bonds, notes, shares) are bought and sold at prices governed by the forces of demand and supply. Stock exchanges basically serve as primary markets where corporations, governments, municipalities, and other incorporated bodies can raise capital by channelling savings of the investors into productive ventures; and secondary markets where investors can sell their securities to other investors for cash, thus reducing the risk of investment and maintaining liquidity in the system. Stock exchanges impose stringent rules, listing requirements, and statutory requirements that are binding on all listed and trading parties (Bajpai, 2003).

2.2.2 Security Market

Securities market is an economic institute within which takes place the sale and purchase transactions of securities between subjects of the economy, on the basis of demand and supply (Henry, 2000). Also that securities market is a system of interconnection between all participants (professional and nonprofessional) that provides effective conditions: to buy and sell securities (DeBondt and Thaler, 2005).

2.3 Major Factors that affect Stock Markets

The stock market is always subject to change due to economic as well as social factors. Also, if a company discovers new sources of renewable energy, it adversely affects the stock market. Therefore, it is important that every investor should be aware of factors that affect the stock market before deciding to invest in a stock market (Endo, 2002). According to Hausler, (2003), the following are the factors that affect the stock market or exchange within the economy;

Inflation can adversely affect the stock market movements. It is a rate at which the value of goods and services increases. There are several factors due to which inflation occurs. These factors include, increase in transporting costs, manufacturing costs and cost of selling goods. When the inflation is low, an upward trend in selling is observed in a stock market but in case of high inflation, companies tend to hold back on spending, which causes an across the board decreasing trend in revenue and increasing trend in cost of goods. This in turn, causes the stock market to drop (Hunnurkar, 2006).

Falling prices tend to mean lower profits for companies and decreased economic activity. Stock prices may go down, and investors may start selling their shares and move to fixed-income investments like bonds. Interest rates may be lowered to encourage people to borrow more. The goal is increased spending and economic activity. The Great Depression (1929-1939) was one of the worst periods of deflation ever (Fischer, 1994).

Although, it seems that investors should be encouraged to welcome deflation but instead, a downturn is faced by the stock market in case of deflation because investors perceive it as a result of a poor economy (Endo, 2002).

The rate of interest, established by government institutions and banks, can also affect a stock market. If a rate of interest is higher in the economy, it shows that a borrower will have to face a high cost of borrowing. Therefore, businesses may have to cut down expenses or make their workers redundant in order to compensate for higher interest costs. It also implies that a business cannot borrow as much as it used to, and hence adversely affects the company's earnings. Consequently, it causes a drop in the stock market (Endo, 2002).

When the overall global economy is down, goods and services cannot be sold overseas as they used to. It causes revenue to decline and as a result, the decline in the stock market is observed. If foreign stock exchanges start failing or experience sharp declines, a ripple effect can be anticipated which ultimately results in the overall drop in a global stock market (Fischer, 1994).

Changes around the world can affect both the economy and stock prices. For example, a rise in energy costs can lead to lower sales, lower profits and lower stock prices. An act of terrorism can also lead to a downturn in economic activity and a fall in stock prices (Demirguc-Kunt, and Levine, 1996).

If a new government comes into power, it may decide to make new policies. Sometimes these changes can be seen as good for business, and sometimes not. They may lead to changes in inflation and interest rates, which in turn may affect stock prices (Hunnurkar, 2006).

2.4 Capital and Security Market in Tanzania

The securities market has developed significantly in recent years for a variety of reasons: a generally favorable macroeconomic environment, new varieties of financial instruments, strong institutional investors, introduction of sound corporate governance standards, successful reforms to the financial markets, and a well-defined regulatory climate (Hunnurkar, 2006).

Following economic liberalization measures which were adopted in Tanzania during the early 1990's, various capital market related reforms were put in place, which includes the capital markets and securities act, 1994, establishment of Dar es Salaam Stock Exchange as well as Foreign Investors Regulations, 2003 (Hunnurkar, 2006).

Tanzania government established a committee, under the leadership of Dr. Mboya for responding to the economic challenges, which faced Tanzania, including the absence of private ownership of firms, unproductive government firms, and need for direct local and foreign investment. The prime role of the committee was to lay the ground for the creation of stock exchange. Hence, in 1994 the Parliament endorsed the establishment of the Capital Markets and Securities Authority (CMSA) (Kibola, 2008).

The legal framework for the regulation of the securities industry is the Capital Markets and Securities Act, 1994 [Act No. 5 of 1994 as amended by Act No. 4 of 1997]. The CMSA established the Dar es Salaam Stock Exchange (DSE) to facilitate the securities (shares and bonds) investment (DSE, 2008). The enactment of DSE came because of government's policy of transforming its economy from public government dominated economy to private sector driven economy. The exchange became operational in April 1998 with TOL Gas Limited listing as the first company followed by the Tanzania Breweries Limited (TBL) during the same year. The delay was due to the necessary background operational preparations that were inevitable such as training of brokers and formulation of issuance and trading rules (Kibola, 2008).

Securities market in Tanzania emerged in the 1990's as a result of the government policy of liberalizing the financial sector. Various reforms were made in relation to capital market. The inception of the liberalization of the market was an enactment of the Capital Markets and Securities Act through which the Capital Markets and Securities Authority (CMSA) was established, followed by establishment of DSE on 1996 as well as regulation of foreign investors on 2003, (as amended in 2006) which allowed the participation of foreign investors in the securities market (Kibola, 2008).

Following the enactment of the law, regulation and establishment of stock exchange, securities market started to move in the country whereby eight companies floated their shares to the stock exchange. Foreign investors' regulation of 2003 provides relaxation for foreign participation through which the capital account was liberalized, which increased vigilance that is necessary to maintain macroeconomic stability and financial stability (Madamba, 2001).

Also, the industry, allows cross listing of companies, whereby three companies from the Nairobi Stock Exchange have cross listed in Tanzania' securities market which enhances increase of investor choices, increase market activities and also stimulate domestic companies. Moreover, two collective investment schemes have been established in the country to empower Tanzanians with different economic levels to participate on capital market (Madamba, 2001).

Generally, capital market has not yet become a mainstream for raising capital or expanding capital to many companies and individuals. This means that regulator and other market players in securities industry still need to make more effort to provide education to the public to understand the opportunities which are available in the capital market at large (Madamba, 2001).

Despite significant reforms made on capital market, plus notable developments of securities market in the country, the public' responses is still small. From available statistics, only about 116,651 Tanzanians own shares of listed securities at DSE (DSE, 2008).

Moreover, only eleven companies including three cross-listed companies have listed their shares at the bourse, and only four corporate and eight government bonds have listed at the bourse. This sluggish rate of participation in the securities market industry prompted the researcher to conduct the research so as to uncover the drivers for active market development in the country. Specifically, the research was conducted in order to evaluate the effects of the capital market reforms on the securities market development in Tanzania environment (Muganga, 2005).

Hence, a stock exchange is a secondary capital market where large and small investors can buy and sell securities (shares, bonds etc.). It is an organized market where buyers and sellers of securities meet as they are represented by dealers/brokers and acquire or dispose securities (DSE, 2007; Norman, 2006). It is a market which securities are traded by members of the exchange who may act as both agents (brokers) and as principal (dealers) (Benning, 2007).

The establishment of the DSE marked the beginning of the people in Tanzania indulging in purchase of shares as a strategy for investing consequently a need for proper decision-making on where to invest and why. It can be added that the establishment of the Capital Markets followed suit of many other changes which gave a signal for the need to transform the economy from government driven to private driven economy. For example the Tanzania ruling party Chama cha Mapinduzi devolved the popularly known Arusha Declaration at the expense of adopting a Zanzibar Revolution. The former had stipulated the need for leaders not to participate in businesses or investment from what was perceived as avoidance of conflict of interest (Muganga, 2005).

The Arusha Declaration set it clear that one should choose to be a leader or to become a business person. It further made it clear that a leader should not be subjected into two pay jobs. The essence was to protect conflicting interest that may arise from different dealings of business ventures. For example, it is hard for a business man who is also the minister for trade and industry or finance to fairly play the role of paying taxes and or being royal to other government procedures that will be required on importing, exporting and in general transactions. Since the creation of the Zanzibar Revolution leaders have been massively participating in business including investing in capital markets (Lwiza, and Nwanko, 2006).

Therefore, investing needs a keen responsibility of why, where and when to invest, and at what amount. The where and why questions are vital, in particular, when observing the performance of the companies that were the first to list shares with the DSE market and reasons backed people to invest in such companies. The first company to list its shares with the DSE was the Tanzania Oxygen Company Gas Limited (TOL). The observation, however, reveal that those who purchased shares encountered what could be termed as loss, since the TOL Gas Limited share value dropped from TZS 500 in 1998 to TZS 290 in 2009 (Lwiza, and Nwanko, 2006).

On the other hand there are companies that have flourished. Such companies include the Tanzania Tea Packers Limited (TATEPA), which experienced the rise of share value from TShs. 330 as an Initial Price Offer in the year 2000 to TZS 510 in 2009. Further, Breweries Tanzania Limited has her shares increased value from IPO of TZS 550 in 1998 to TZS 1850 in 2009 (DSE, 2009). Other company such as NICO has IPO of TZS 300 in 2005 as on 4th March, 2009 the price has decreased to TZS 2851. The research problem attracted the researcher in several ways; including the new-fangled venture of investment, which has attracted many Tanzanians (Lwiza, and Nwanko, 2006).

Secondly is the potentials vested in the entire shares business, which seem to supersede the banking interest rate on various accounts by far. For example, those invested in the Tanzania Cigarette Company (TCC) have enjoyed the share value increase of about 400% from TZS 410 in 2000 as Initial Price Offer (IPO) to TZS 1740 as Closing Price Offer (CPO) in 2009 Such money increase, if were deposited at Commercial Banks would not reach an interest of 5% (Muganga, 2005).

The normal rate of most banks in Tanzania for saving accounts is between 2% to 4%. Those who invested in the Tanzania Breweries Company Limited earned about 254% in the period of about five years. Therefore, the main purpose is to set out paradox of whether those investing in shares do consider financial analysis/information when investing (Muganga, 2005).

Most studies indicate the general importance of financial information/financial statements analysis as opposed to the use of the same in capital markets and in particular stock exchange. To bridge the gape, this study has found out the use of financial information by investors of stock exchange. The study has also covered the evolution and the development of capital markets in Tanzania and has set the comparative analysis of the capital markets in East Africa.

Hence while many studies have revealed the role played by the understanding of financial information/financial analysis the link has been on indicating the general use in investment and in decisions of various portfolios but not specifically on whether people investing in stock exchange consider the financial information when investing or purchasing shares (Kibola, 2008).

Financial statements analyses emphasize on developing financial information within the context of formal decisions models. For instance the study of Kibola, (2008), on the usefulness of annual reports reveal that the user groups surveyed in the study rely mainly on information made directly available by the company and do not consult intermediary sources of corporate information in order to make informed decisions.

This may suggest that there could be same correlations if same study was to be carried in Tanzania, since, just like Saudi Arabia, Tanzania is perceived to have a limited number of listed companies and businesses and financial communities have many social and business links, resulting in relatively easy interaction between the user groups and related companies (Kibola, 2008), The expediency of information released by companies should be in a simple form and expressive language for consumption by any client. In this dimension, Kibola, (2008), suggests that to make annual reports adequate and readable, the information contained in these annual reports should be presented in an understandable manner and grouped and organized appropriately. Moreover, Madamba, (2001) asserted that the language style might have a material effect on the readership, and influence the understandability of information that appears in annual reports.

Kibola, (2008), however, suggested that even if users of annual reports are assumed to be knowledgeable, the information itself could have different degrees of comprehensibility. In all sense, the importance of Financial Statements Analysis, which is literary known as financial information, is inevitable to investors and most findings have indicated the imperativeness of these reports. Nasser and Nuseibeh (2003) provide a number of studies, which have investigated the usefulness of corporate information to the users and found the annual report to be important and primary source of information.

Informed investment is important for minimizing the risks associated with loosing value for the money invested. It is the spirit of the government to ensure that people participate in programs that reduce poverty. The essence of capital markets is imperative in the efforts of the government to improve the economy and reduce poverty. Capital markets enables individuals to own firms and multiply their incomes through investment that is managed by other people but with profits shared with many individuals – the poor and the rich (Muganga, 2005).

Capital markets are divided into two categories namely bonds and shares both are generically known as securities. Most people with normal economic status have been able to boost their economic strength and improve livelihood through purchase of shares. For example about 153,630 people participated in purchasing shares at Initial Price Offer (IPO) in Tanzania in 14 listed companies (DSE, 2009).

The descriptions of the firms and the number of people subscribed are TOL 10500; TBL 23000; TATEPA 2000; TCC 7508 Tanga Cement 14228; DAHACO 41025; Twiga Cement 18300; NICO 2986; TCB 5447; and NMB 28636. The number of subscribed in shares suggest that the multiplier effects is huge. Since stocks are purchased at lower price and sold at higher price. Hence the total number benefiting from the entire exercise of purchasing and selling of shares is bigger than 153,630. It is estimated that a third of those purchase shares at IPO do sell during first appearance at secondary market (DSE, 2009).

There are number of factors that enable people purchase shares of the listed firms. The factors include the perceived management – to what extent the management of the firm suggests future prospects. Another factor considered are owners of the firms listing shares – who own the firms listing shares. For example firms that solely belong to the government seem to automate reliability of the people to purchase shares. The figures of people subscribed shares in Tanzania supports the argument. The first five firms with big numbers of investors are those owned by the government. The logic behind this is the risk associated with any business. Buyers would confide the government than individuals (Madamba, 2001).

Most individuals rank the firms by mere understanding the profits and hence dividends anticipated, which suggest the need for acquisition of financial information. Financial information is important to the management of firms in Tanzania. It is from financial information the management can decide to list shares (Muganga, 2005).

The financial information tells managers on what measures should be taken for the survival of the firms. It is financial information that gives among other information whether the firms can pay dividends, cover debts, purchase new machines, establish branches, go abroad, and increase capital, among others. The studies on the performance of the organizations in Tanzania and the world over reveal that most firms face two huge problems: working capital and competent personnel (Muganga, 2005).

Hence capital markets are the key to raising financial capital of the firms as opposed to loans from financial institutions such as banks (DSE, 2008; 2007). The importance of capital markets particularly on raising firms' capital is on the base that no interest is charged on the capital acquired. Most first listed shared in Tanzania have encountered more money raised compared to what was needed.

Therefore it can generally be argued that capital markets translate the policies of Tanzania government of alleviating poverty and finally improving the people's livelihood. It is the capital market, which adds values on number of employments which results from rejuvenation that emanate from increased working capital of the firms. The firms listed with the DSE pay taxes to the government hence improving the accumulated fund, which ultimately does the roads improvements, health services, schools and so forth (Kibola, 2008).

2.4.1 Capital Markets and Securities Act of 1994

The Capital Markets and Securities Act, 1994 was enacted to establish a Capital Markets and Securities Authority (CMSA) for the purpose of promoting and facilitating the development of an orderly, fair and efficient capital market and securities industry in Tanzania. It may be observed that the major component of the Act is concerned with dealing in securities (Kibola, 2007).

CMSA became operational as a unit under the Bank of Tanzania (BOT) in April 1994. It became an autonomous body in July 1995.The vision of CMSA is to develop and regulate a sustainable capital market, which is efficient, transparent, orderly, fair and equitable to all, as it has also been stipulated by IOSCO, that the three core objectives of securities regulation are: protection of investors; ensuring that markets are fair, efficient and transparent; and the reduction of systematic risk (Muganga, 2005).

The purpose of the CMSA is to regulate and supervise the capital markets in Tanzania by promoting their development; regulating the whole industry in terms of the capital markets; licensing the brokers, investment advisors, stock exchanges, and the conduct of business and financial disclosures; and advising the government on the securities business (Muganga, 2005).

2.4.2 Establishment of DSE

The formation of the DSE followed the enactment of the Capital Markets and Securities Act, 1994 and the establishment of the CMSA, the industry regulatory body also charged with the mandate of promoting conditions for the development of capital markets in Tanzania. The governing organ of the DSE is the Council of the Exchange, which consists of 10 members representing various interest groups in the society (Lwiza and Nwanko, 2006).

Trading activities at the DSE commenced on 15th April 1998 after two years of background preparatory work under the stewardship of the Government through the CMSA. The opening of the Trading Floor coincided with the listing of Tanzania Oxygen Limited (TOL) Limited (formerly Tanzania Oxygen Limited), as the first company on the new Exchange (Kibola, 2008).

The establishment of the DSE in 1996 marked an important milestone in the effort towards the development of the capital market for mobilization and allocation of long-term credit to the private sector. The creation of the DSE was a government initiative through a comprehensive preparatory groundwork that was required to promote a stock exchange in Tanzania (Ziorklui, 2001). It has six stockbrokerage firms, licensed to deal on the exchange. Both Tanzania citizens and non-citizens are allowed to buy shares in this stock market. All companies wishing to be listed at the DSE must be approved by CMSA.

The DSE provides a facility for listed companies to raise long-term capital from the investing public by issuing shares and bonds. Through the DSE, a company can go to the public at large and invite the public to lend it cash (by buying bonds) or own a part of the company (by buying shares). In this way, the company can tap the savings of every person in the country or outside the country, in order to obtain the long-term capital that may not be easily available from its own resources or from its bankers (Kibola, 2008).

Capital market is the market for long-term funds where securities such as equity and bonds are traded. Both the primary market for new issues and the secondary market for existing securities are part of the capital market. Capital market means by which large amounts of money (capital) are raised by companies, governments and other organisations for long term use and the subsequent trade of the instruments issued in recognition of such capital (Madamba, 2001).New money is raised in the primary market by issuing shares or bonds to investors who can then trade them on the relevant secondary market.

The growth and development of well-functioning capital markets, particularly for equity and long-term debt (bonds), generates significant benefits. Capital markets facilitate the mobilization of financial resources and their efficient allocation into productive investments by providing efficient savings vehicles for retail and institutional investors and diversifying funding sources for enterprises. This diversification also makes the corporate and financial sectors more robust to shocks, which enhances the sustainability of economic development (Madamba, 2001).

One of the key structural changes in a growing number of emerging markets has been the rapid development of local securities markets since the mid 1990s. This change has reflected both policy efforts by the authorities in major emerging markets and trends in global financial markets (Hausler et al, 2003). Efforts to develop local securities markets have been made by a number of considerations, especially the desire to provide an alternative source of funding in order to self insure against reversals in capital flows. One motivation has been a desire to stimulate saving by offering savers new financial instruments that broaden the set of investment opportunities and allow for better portfolio diversification (Hausler et al, 2003).

In recent years, developing countries' attention in financial sector reforms has shifted from emphasizing bank-related institutions to developing non-bank financial institutions (capital markets). This is because capital markets have a comparative advantage in mobilizing long-term capital for investment. The increased attention on capital markets is also attributed to the dissatisfaction with bank-based finance, which is fraught with government controls, and the growing awareness of the need for a more integrated approach to financial sector development, resource mobilization and promotion of investment and economic growth (Madamba, 2001).

The reforms were expected to improve market performance, by increasing liquidity, enhancing efficiency, and reducing trading costs. These reforms includes: reforms related to the custody of securities, such as the establishment of a central depository, reforms aimed at enhancing the trading environment, such as the adoption of new technologies and trading platforms, and reforms associated with clearing and settlement processes, such as the introduction of more efficient clearing systems (Hunnurkar, 2006).

Henry (2000), observed that the reality of a much reduced supply of foreign funds from previous sources, such as commercial banks, compels governments in many developing countries to pay increased attention to capital market development as a way of improving domestic resource mobilization, enhancing the supply of long-term capital and encouraging the efficient use of existing assets.

Additionally, the need for developing capital markets even for less-developed economies is recognised by Fischer, (1994), who argues that through a wide range of financial assets provided in capital markets, people are induced to increase their rate of current savings and increase the efficiency with which capital is used (Fischer, 1994).

Thus, capital markets can significantly raise the level of domestic savings and contribute to a more efficient allocation of such savings among competing uses. Therefore, the added advantage that the capital market exerts over other financial institutions makes the development of an effective capital market indispensable for any economy that is keen in allocating scarce capital resources to achieve economic growth.

The development of the financial market (money and capital markets) tends to be sensitive not only to the legal, regulatory and tax framework, but also to the macroeconomic and sector policies, growth prospects and the political environment (Endo, 2002). Amine, (2012) observed that macro-economic and fiscal environment conducive to the supply of quality securities and sufficient demand for them is one of the two preconditions which are basic building blocks for a sound securities market to thrive.

This precondition recognizes the importance of taxation (a fiscal policy) as a factor of capital market development. The author claims that differential effective tax rates on either income or capital gains from different financial instruments will distort capital raising and investment decisions, since it is common in LDCs which have favored directed credit and state ownership of commercial banks to find that tax rates discriminate in favor of savings and demand deposits as opposed to securities investment, and in favor of borrowings from banks as opposed to capital raisings from the public (Amine, 2012),

These policies were used extensively to concentrate capital accumulation and allocation decisions into the sphere over which government could exercise the most direct policy control. In moving to more market-oriented capital accumulation and allocation mechanisms, it is essential that these taxation differentials be removed. Otherwise, the withdrawal of government from credit decisions will change the nature of market distortions but not remove them. This is because enterprises and investors will have an incentive to structure capital raising and investment on the basis of tax considerations rather than on the fundamentals of value and risk (Endo, 2002).

Capital markets play an important role in mobilizing savings to finance production and infrastructure investment needed for economic development. In Asia, the savings ratio has been much higher than in other regions. However, such savings have not been adequately invested in Asia. Only five percent of Asian total cross-border portfolio investment has been directed to other East Asian markets, as compared to Europe where 63 percent of cross-border flows remain within the European region (Endo, 2002).

This is partly due to the underdevelopment and inefficiencies of the capital markets in the Asian region. Various reforms have been made to: improve corporate governance including investor protection; strengthen market regulations and supervision; expand investor base especially contractual savings, mutual funds, and cross-border funds; improve market infrastructure; and develop new financial instruments (Endo, 2002).

Stock market liberalization is a decision by a country’s government to allow foreigners to purchase shares in that country’s stock market (Cohn, 2000). It has been stated that, stock market liberalization may reduce the liberalizing country's cost of equity capital by allowing for risk sharing between domestic and foreign agents. These reforms, together with improved macroeconomic fundamentals Endo, (2002), where the macro-economy is conducive to profitable business operation, a sufficient number of sound businesses can develop to a stage where access to securities markets is useful for their continued growth.

The aim of the continuing efforts to reform the capital market is to facilitate the access to risk capital, to strengthen corporate equity capitalization and to encourage saving in the field of high-risk investment aimed at providing a positive impetus to the capital market. Among others, the aim to capital market reforms is to increase wider investors' participation in buying and selling financial securities. Therefore, Capital market reforms aim at improving demand and supply of securities (Horgan, 1999).

The forces of demand and supply just as other markets as well as infrastructure and other uncontrolled factors influence the capital market. The supply side consist of government and corporate securities. Demand side consists of the pool of market participants, dealers, institutional investors, banks, mutual funds and the public. It was found that investors willingness to buy government securities came when they know that they can reduce (increase) their own holding quickly, conveniently, inexpensively and at a time of their choice by trading in a secondary market (Kibola, 2008).

Thus we can say the supply side calls for improved liquidity and information flow (efficiency of the market) which will create awareness and familiarity of the government securities to investors in the public. Interaction of the forces of demand and supply is where government borrowing is substantial. The need to curb budget deficit derives the demand for the public financing. Where the central bank needs to affect the monetary policies derives the need to mop the liquidity and both leads to supply of government securities (Muganga, 2005).

Muganga, (2005), observed that in an environment like Ghana lack of knowledge and unfamiliarity with negotiable instrument by the populace were expected to be significant constraint to the development of the securities markets. He examines that Institutional factors affect the development of the Ghana stock market and finds that the legal and regulatory framework that ensures protection and security of investors is very important.

The increase interest rate by private equity investors in developing market has been accredited to the push and pulls factors. The push factor is for better profits and more diversification because of the knowledge that returns in emerging markets are generally higher even with adjustment for risks than in mature markets (World Bank, 1995). The pull factor is a result of wide ranging reforms, legislative as well as economic in many developing countries. Governments have liberalized or eliminated capital restrictions, improved the flow of financial information and strengthened investor protection thereby earning the attention of the investment community.

In their study, Ngugi et al (2003) identified three main types of reforms implemented in securities markets since the 1990s, namely revitalization of the regulatory framework, modernization of trading systems, and relaxation of restrictions on foreign investors. The objectives were to promote and facilitate the development of an orderly and efficient capital market, reducing the transaction period and increase market liquidity, through which the development of securities market will be attained.

Ngugi and others (2003) added that, there are benefits of investments to improve market microstructure. For example, a comparative analysis across the sample demonstrates that markets with advanced trading technology, tight regulatory system and relaxed foreign investors’ participation show greater efficiency and lower market volatility.

Solaiman (2006) evidenced that, the Bangladesh securities market has failed to achieve any significant growth since its inception in 1954. This stagnation is attributable to a number of factors that include, inter alia, the existence of weak legal and regulatory frameworks, the absence of active market professionals, the predominance of individual investors, and a serious dearth of foreign and institutional investors.

Legal and regulatory weaknesses are considered to have critically hindered the market's potential growth. Some important laws are outdated, and the regulator has introduced some unrealistic reforms over the years. Most of the reforms accomplished thus far concentrate on incentives to investors and issuers alike, but nothing significant has been done for investor protection (Solaiman, 2006)

Katto, (2007), found the following factors as the challenges which facing Capital market development; these are, Tax and Foreign Investment policies are not fully harmonized, Lack of depth and liquidity in the stock markets, Disparities in trading, clearing and settlement infrastructure and insufficient capacity and skills.

Madamba, (2001), contend that the demand for and supply of securities is crucially linked to the state of the macro-economy. Where the macro economy is conducive to profitable business operation, a sufficient number of sound businesses can develop to a stage where access to securities markets is useful for their continued growth. They can then offer their securities to the public for investors to hold or trade thus creating the securities market.

Muganga, (2005) observe that economic with strong information disclosure laws international; accepted accounting standards and unrestricted international capital flow tend to have larger and more liquid market. In comparative terms, while the developed market with well established institutions are characterized as having high level of liquid and trading activity, substantial market depth and low information asymmetry the emerging market are said to exhibit more information. Asymmetry, thin trading and shallow depth because of their weak institutional infrastructure

2.4.3 The Foreign Exchange Regulations

As part of reforms on capital markets, The Foreign Exchange and Capital Markets and Securities (Foreign Investor) Regulations of 2003 govern foreign participation at the DSE was established (Wetzel 2004). The Capital and Securities (Foreign Investors) Regulations, 2003 allow foreign investors to participate in acquiring listed securities and places limits on their participation. To begin with, foreign investors cannot participate in the Government securities market. A maximum limit of 60% of issued shares has been fixed as the maximum permissible for foreign investors. For individual foreign shareholders, the maximum limit is 1%. In respect of institutions, the limit is 5% (Muganga, 2005).

Eventually, private Tanzanian companies may be able to secure international capital more inexpensively through the DSE than through long-term loans. Opening the DSE to foreign participation liberalized the capital account, that an increased vigilance will be necessary to maintain macroeconomic stability and financial stability. The benefits of allowing portfolio investment in Tanzania are long term, and are largely dependent on the number and quality of private companies that will be listing at the DSE (Madamba, 2001).

2.5 Factors that Influence Investors to Invest in Stock Exchange

Stock market is an important part of the economy of a country. The stock market plays a play a pivotal role in the growth of the industry and commerce of the country that eventually affects the economy of the country to a great extent. That is reason that the government, industry and even the central banks of the country keep a close watch on the happenings of the stock market. The stock market is important from both the industry's point of view as well as the investor's point of view (Cohn, 2000).

The stock market is playing an important role in the global economy. It helps in the growth of commerce and industry of a global community and hence, affects the economy to a greater extent. This is the reason why governments, industries and financial institutions like banks always keep track of the stock market trends. The stock market is important for both investors as well as for industries. If companies want to raise funds to set up a new business or to expand their existing business, they issue shares through the stock market or take debt from financial institutions. Stock market acts as a primary source for industries and organizations to raise funds without bearing the burden of debt (Endo, 2002).

Companies need to get listed in order to issue shares to the general public and get the funds to meet their business requirements. However, there are certain laws and regulations for companies that they need to follow in order to obtain the listing and be eligible to go public and issue shares. Therefore, the primary function of the stock market is to increase the growth of the worldwide economy and by investing in the stock market, an investor participates in the development of industrial sector and thus, for the growth of the economy (Horgan, 1999).

The conventional reason to invest in a stock market despite the stock market crash which an investor has to face is the probability of high return earned by an investor. But it is important to set your financial goals before jumping into the stock market. Every investor has a list of financial goals, such as paying rent, purchasing a new car, or to earn profit on investment. This is the reason why they invest in the stock market. They expect companies to perform well and earn higher profits so that an investor can take advantage of these profits in terms of higher return on investments (Kibola, 2008).

An investor should manage his portfolio wisely so that his entire investment portfolio is well diversified and support all his goals. But it is important for an investor to set realistic financial goals so that he can achieve his targets in the future. People usually invest in the stock market to earn money and to build a healthy and secure financial future. There are many individuals who prefer to keep their money in banks in order to keep it safe. They make little or no interest on their savings and hence, are actually losing their money due to inflation. For example, if they earn 2% in a particular year in bank but on the other hand, inflation is at 5%, they actually lose 3% in that particular year (Kibola, 2008).

So the stock market is not only providing the much required funds for boosting the business, but also providing a common place for stock trading. It is the stock market that makes the stocks a liquid asset unlike the real estate investment. It is the stock market that makes it possible to sell the stocks at any point of time and get back the investment along with the profit. This makes the stocks much more liquid in nature and thereby attracting investors to invest in the stock market (Endo, 2002).

2.6 Barriers to Development of Security Market

Stock markets can be volatile, and the reasons particular stocks rise and fall can be complex. More often than not, stock prices are affected by a number of factors and events, some of which influence stock prices directly and others that do so indirectly; Developments that can occur within companies will affect the price of its stock, including mergers and acquisitions, earnings reports, the suspension of dividends, the development or approval of a new innovative product, the hiring or firing of company executives and allegations of fraud or negligence. Stock price movements will be most drastic when these internal developments are unexpected (Horgan, 1999).

One of the more predictable influences of the stock market are periodic adjustments of interest rates by the country to combat inflation. When interest rates are raised, many investors sell or trade their higher risk stocks for government-backed securities such as bonds to take advantage of the higher interest rates they yield and to ensure that their investments are protected (Muganga, 2005).

Foreign currency rates have a direct impact on the price and value of stocks in foreign countries, and changes in exchange rates will increase or decrease the cost of doing business in a country, which will affect the price of stocks of companies doing business abroad. While long-term movements in exchange rates are affected by fundamental market forces of supply and demand and purchase price parity, shortterm movements are driven by news, events and futures trading and are difficult to predict (Fischer, 1994).

Company stock prices and the stock market in general can be affected by world events such as war and civil unrest, natural disasters and terrorism (Kibola, 2008). These influences can be direct and indirect, and they often occur in chain reactions. For instance, the social uncertainty and fear generated by the terrorist attacks on Sept. 11, 2001, affected markets directly as they caused many investors in the United States to trade less and to focus on stocks and bonds with less risk. An example of an indirect influence on markets is the announcement of a new military venture by a country in response to the outbreak of civil unrest or conflict abroad.

This announcement likely would cause the price of the stocks of military equipment and weapons manufacturers to rise due to an expected increase in defense contracts, which in turn can raise the value of stocks for companies that supply military equipment parts and technology. It likely would raise the demand for, and price of, natural resources used to make these parts, which would raise the price of stocks representing particular mining and natural resource processing companies (Horgan, 1999).

Stocks and the stock market also can be affected by hype about a company or the release of new products or services. Many people and organizations have an interest in promoting particular stocks and industries to increase the value of their own shares and profits, and positive financial reports and stock market newsletters, Internet blogs, press releases and news reports can build high expectations for the performance of companies, which will raise the price of their stocks. This can occur even when the hype has no foundation in truth; investors are wise to consider peoples reaction to hype rather than analyze the merits of the positive promotion (Bajpai, 2003; spring, 2009).

Another factor that affects the development of the capital market is information disclosure or transparency of transaction. Henry (2000), indicates that in markets for publicly offered securities, investor access to information pertaining to their prospective investments is more limited than that of professional intermediaries. Investors can therefore be protected by the compulsory disclosure of financial data and other relevant information relating to the issues of securities.

Ziorklui, (2001) also contends that a company that raises funds from the public must be required to disclose sufficient information to allow an educated investor to make a reasoned investment decision so that the aggregate of investors' decisions may be a good assessment of a company's worth. This requires an effective legal infrastructure to specify and enforce disclosure standards for all companies issuing securities for the public. Those companies that have securities listed for secondary trading on a market such as a stock exchange should be subjected to additional disclosure requirements imposed as listing rules.

Muganga (2005), contend that information asymmetries abound in financial markets. The managers of a firm know more about that firm's market prospects and investment opportunities than do outsiders. Financial market professionals often have access to information that is not widely available.

In an unregulated market, the possibility exists that unsuspecting investors will be harmed by those with access to information not available to the public at large. This is important for the economy because lack of public confidence in securities markets would cause the supply of funds to the markets to dry up, thus depriving the economy of the benefits of a functioning market (Kibola, 2008).

There is considerable interest in developing market finance from academics and international portfolio investors and financial institutions following the restructuring of global capital flows (Amine, 2012).

Indeed, sustainable forms of finance to promote economic growth and alleviate poverty in developing countries have been a key objective of the IMF and World Bank, with this aim reflected in national structural adjustment programmes. In

Africa, many of these programmes include the establishment of a capital market to support privatization of state owned enterprises, which widens ownership and increases economic performance and efficiency (Amine, 2012).

However, this has rekindled the debate on whether national policy should priorities the development of national banking systems or stock markets as a source of external finance (Cohn, 2000). Proponents of banking sector development claim that stock markets are a costly irrelevance to poor countries. Many Sub-Saharan African countries have had well established banking systems since colonial times, in many cases to support the extractive industries. Thus, banking has experienced greater growth than stock markets and is the dominant source of external finance (Fischer, 1994).

Conversely, supporters of capital market development claim that the newly established stock exchanges will provide a source of capital to finance industrial expansion as this mitigates risk, attracts domestic savings and encourages international portfolio investment and Foreign Direct Investment (FDI) (Fischer, 1994).

Unfortunately, many barriers exist that prohibit the development of a successful capital market, such as low levels of regulation and poor systems of corporate governance. Also many countries have unstable macroeconomic environments that create information asymmetries for both domestic and international investors. Finally, these states frequently have highly skewed income and wealth distributions resulting in political economy distortions (Fischer, 1994).

Consequently, the risk premiums faced by investors, and the cost of equity faced by issuing firms, are high while liquidity is very low. Therefore, any benefits that may result from a stock market are confined to a social and political elite rather than being shared by the wider population (Fischer, 1994).

Swaziland and Mozambique face similar problems of economic growth and development. In both countries a costly stock exchange has been established that has provided minimal benefit to the vast majority of people at the expense of enhancing a long established and relatively efficient banking sector. Swaziland makes an interesting case study as it is a member of the Southern African Customs Union (SACU). This reduces macroeconomic instability as monetary policy is linked to that of South Africa, although the region has experienced some volatility in recent history.

Swaziland is also a member of the Common Monetary Area (CMA) and therefore has no foreign exchange exposure with respect to other member countries, which should make it a more attractive environment for foreign investors within the rand zone. Lower financing costs could be achieved through scale and scope economies by integrating domestic activities with South Africa. Investment indices used by investment managers in asset valuation, as happened in Namibia (Cohn, 2000).

Mozambique shares many characteristics with Swaziland, although monetary policy is independent as the country is not a member of the CMA. The Mozambique Stock Exchange was created at the time of transition from a socialist to a market economy.

However, the development of this market has been impeded by the very small formal sector and the fact that standard auditing techniques have only recently been adopted. There is also a reluctance to diversify ownership in a business sector dominated by family owned firms. This makes debt, and particularly relationship- based bank finance, a more attractive form of financing from a local governance perspective (Endo, 2002). Thus, the exchange has only attracted two equity listings and growth is limited by the uncertain macroeconomic and business environment.

Given the similarities in economic conditions between these two countries, and the ongoing debate in the development literature on the wisdom of establishing stock markets in small developing economies it is timely to review the challenges to growth of these fledgling markets and assess potential avenues for the future.

The paper addresses these questions by first assessing the efficiency of each national stock exchange and identifying the barriers to their further development. Two factors dominate: the negative impact of illiquidity and smallness on the efficiency of these stock markets and the effect of limited participation in those markets. The first can be overcome but the second is a function of the political economy and level of poverty in the country, both of which are considerably more difficult to resolve (Endo, 2002).

A large theoretical and empirical literature in economics, development and finance, has focused on the direction of causality between the establishment of effective financial intermediaries and economic growth. For example, Madamba, (2001), find strong evidence that the development of robust financial intermediaries, and specifically stock markets, are causally prior to economic growth and increased Gross Domestic Product (GDP).

Several authors have used multiple country panel data methods to test this relationship. Studies such as Hunnurkar, (2006), use a two-stage panel regression for a number of countries and find that the value of traded securities accounts more for economic growth than market capitalization. Finally, studies using time series techniques find that causality flows from both traded value and market capitalization to economic growth, with the former having the stronger effect. Thus, it is now well established that a robust and developed financial system with strong intermediaries can increase productivity, technology diffusion and economic growth.

One of the central objectives for the establishment and development of stock markets is to diversify ownership and increase participation by the economically active domestic population and this is particularly important if privatization programmes are to succeed. Henry (2000), claims that encouraging wider ownership of large former government controlled parastatals by domestic investors and foreign multinationals is crucial for many African countries.

Stock markets can provide this as well as offering a point of exit for venture capital firms that have supported a domestic start-up venture and are seeking to liquidate their investment. All of these increase stock market activity and hence efficiency, as well publicized and familiar listings bring investment opportunities into the public domain (Henry, 2000).

Finally, stock markets reduce the cost of capital for listed firms by pooling funds from a widely dispersed base of retail and institutional investors that mobilise savings from households and individuals. In the absence of stock markets, investors are at a disadvantage by being unable to diversify firm specific risk due to lack of information (Kibola, 2008). By issuing stocks and bonds companies increase the locative efficiency of savings, which then raises the returns realized. By maximizing returns on the part of investors, savings are stimulated and the supply of available funds is increased.

In particular, institutional investors are crucial to African markets, especially insurance and pension funds. The benefits of gains by diversifying risk in large portfolios of investments and managed long term asset growth generates demand for more investment and hence more savings can be channeled through portfolios (Madamba, 2001).However, despite the perceived benefits for new investors who become stakeholders in their economies there is contradictory evidence from many African countries. Firstly, many markets in Africa are small and there are major scale inefficiencies.

Large markets are cost efficient as intermediaries, are highly liquid and have sufficient breadth and depth to ensure price efficiency. The challenge for most African stock markets is to increase liquidity, expand access and thus reduce the cost of capital. Secondly, there is a lack of involvement by domestic investors. For example, in the West African bourse in Cote d’Ivoire, the inactivity and lack of listing is attributed to the tradition of participation in the domestic economy by local Ivorian elites exclusively (Madamba, 2001).

Finally, in many African countries the majority of the populations are economically disadvantaged and the usual intermediary function of the banks and other financial institutions is severely restricted. These factors do not bode well for economic development that is founded on national capital markets (Henry, 2000).

Over the last two decades, a large number of countries, both developed and developing, have implemented significant capital market reforms, including stock market liberalization, improvements in securities clearance and settlements systems, and the development of regulatory and supervisory frameworks. These reforms, together with improved macroeconomic fundamentals and capital market-related reforms, such as the privatization of state-owned enterprises and the shift to privately managed defined contribution pension systems, were expected to foster domestic financial development (Henry, 2000).

Various literatures contend that in the early 1980s several developing countries embarked on financial liberalization strategy. The move was motivated by the real state of the local financial system and the influence of the Structural Adjustment Programs (SAP) as promulgated by the Breton Wood Institutions, World Bank and International Monetary Fund (IMF). Tanzania as one of those countries has been undertaking a number of political and economic reforms for more than a decade now (Henry, 2000).

One of the steps taken when reforming economic sector is the establishment of capital markets. In 1994, the Tanzania government enacted Capital Markets and Securities Act of 1994, which established the Capital Markets and Securities Authority (CMSA). There are a number of reasons why governments have found it necessary to develop capital markets in their countries. With regard to Tanzania, the underlying reason for the development of capital markets is the transition of the country's economy from a "planned" economy, dominated by parastatal enterprises, towards a "market" economy, where the private sector is expected to play an increasingly important role (Kibola, 2008).

Securities Markets are a critical component of many economies and the regulation of securities markets can be fundamental to a country's financial development and integration into global market. Securities are any form of ownership that can be easily traded on a secondary market, such as stocks and bonds (Horgan, 1999).

It also includes their derivatives, such as futures contracts, options, or mutual funds. Securities market refers to a place or places where securities are bought and sold, the facilities and people engaged in such transactions, the demand for and availability of securities to be traded, and the willingness of buyers and sellers to reach agreement on sales, while the capital markets are those institutions and arrangements that deal with longer-term instruments such as bonds, equities and mutual funds (Horgan, 1999).

It may be argued that, by functional classification, capital markets play three main roles. First, long term funds can be raised by companies from those with funds to invest, such as financial institutions and private investors; in fulfilling this role, they act as primary markets for new issues of equity and debt. Second, capital markets provide a ready means for investors to sell shares and bonds they own, or to buy additional ones to increase their portfolios (Horgan, 1999).

In fulfilling this role, the capital markets act as secondary markets for trading existing securities. Third, the markets provide mechanisms for trading future and contingent claims, based on the values of the underlying assets; hence the derivatives market (Horgan, 1999).

As the Tanzania economy attempt to develop its private sectors, it is becoming clear that the growth of equity markets can offer an important catalyst for sustainable development. This is achieved in a number of interrelated ways: first, an efficient stock market is a source of equity finance for corporations, thereby enabling them to raise long-term equity capital. In addition, the development of a stock market will attract inflows of foreign capital and will strengthen linkages between domestic and international capital markets. Equity market development can facilitate privatization programs and encourage domestic savings and investment (Kibola, 2008).

Local securities markets play a vital role in a country's financial system. They improve risk management capabilities, access to domestic and foreign financing, pricing signals, and corporate governance (Horgan, 1999).

Current trends, particularly the recent financial sector crises, growth in domestic institutional investors, and reduced capital flows to emerging market countries increase the need to support their growth and development. The securities market broadens ownership, allowing participation of small investor, and also allowing price discovery through market forces, which are demand for and supply of securities. The securities market enables individuals to share the increased wealth provided by competitive enterprises (Horgan, 1999).

The securities market also provides a market place for purchase and sale of securities and thereby ensures transferability of securities, which is the basis for the joint stock enterprise system. The liquidity available to investors does not inconvenience the enterprises that originally issued the securities to raise funds. The existence of the securities market makes it possible to satisfy simultaneously the needs of the enterprises for capital and of investors for liquidity (Henry, 2000).

The liquidity the market confers and the yield promised or anticipated on security encourages people to make additional savings out of current income. In the absence of the securities market, the additional savings would have been consumed otherwise. Thus the provision of securities market results in net savings. The securities market enables a person to allocate his savings among a number of investments. This helps him to diversify risks among many enterprises, which increases the likelihood of long term overall gains (Henry, 2000).

2.7 Theories

2.7.1 Prospect/Loss-Aversion-Theory

It suggests that people express a different degree of emotion towards gains than towards losses. Individuals are more stressed by prospective losses than they are happy from equal gains. An investment advisor won't necessarily get flooded with calls from her client when she's reported, say, a $500,000 gain in the client's portfolio. But, you can bet that phone will ring when it posts a $500,000 loss (Bajpai, 2003).

A loss always appears larger than a gain of equal size - when it goes deep into our pockets, the value of money changes. Prospect theory also explains why investors hold onto losing stocks: people often take more risks to avoid losses than to realize gains. For this reason, investors willingly remain in a risky stock position, hoping the price will bounce back (Bajpai, 2003).

Gamblers on a losing streak will behave in a similar fashion, doubling up bets in a bid to recoup what's already been lost. So, despite our rational desire to get a return for the risks we take, we tend to value something we own higher than the price we'd normally be prepared to pay for it (Endo, 2002).

The loss-aversion theory points to another reason why investors might choose to hold their losers and sell their winners: they may believe that today's losers may soon outperform today's winners. Investors often make the mistake of chasing market action by investing in stocks or funds which garner the most attention. Research shows that money flows into high-performance mutual funds more rapidly than money flows out from funds that are underperforming (Endo, 2002).

2.7.2 Over/Under Reacting Theory

It says that investors get optimistic when the market goes up, assuming it will continue to do so. Conversely, investors become extremely pessimistic amid downturns. A consequence of anchoring, placing too much importance on recent events while ignoring historical data, is an over- or under-reaction to market events which results in prices falling too much on bad news and rise too much on good news. At the peak of optimism, investor greed moves stocks beyond their intrinsic value (Hong and Stein, 1999).

2.7.3 Theory of Overconfidence

It says that people generally rate themselves as being above average in their abilities. They also overestimate the precision of their knowledge and their knowledge relative to others. Many investors believe they can consistently time the market. But in reality there's an overwhelming amount of evidence that proves otherwise. Overconfidence results in excess trades, with trading costs denting profits, (Cohn, 2000).

2.8 Empirical Literature Review

Muganga, (2005) made a study on factors which impede development of a secondary market for government securities in Tanzania. The study found, for investing in the stocks or to trade in the stock the investors have to go through the brokers of the stock market. Brokers actually execute the buy and sell orders of the investors and settle the deals to keep the stock trading alive. The brokers basically act as a middle man between the buyers and sellers. Once the buyer places a buy order in the stock market the brokers finds a seller of the stock and thus the deal is closed. All these take place at the stock market and it is the demand and supply of the stock of a company that determines the price of the stock of that particular company.

Amine, (2012) found that, there is various factors affect investors decision to invest in stock markets. The foregoing review of literature and empirical studies has provided fairly mixed conclusions about the impact of capital market reform as a factor affecting development of securities market. This offers a clear justification of further study on capital market reform and its effects on the development of securities market, specifically on how capital market reforms have affected demand for and supply of securities market.

As it has been empirically shown extensively that capital market reform is a powerful factor for predicting development of securities market, it provides the underlying structure for the conceptual model for this research. Regardless of the influence of reforms of capital market on demand and supply of securities as pointed out by most researchers, its impact still varies from one country to another. It is arguable that capital market reforms have effect on development of securities market. This argument triggered an ambition of the researcher to focus her attention on effects of capital market reforms on demand and supply of securities.

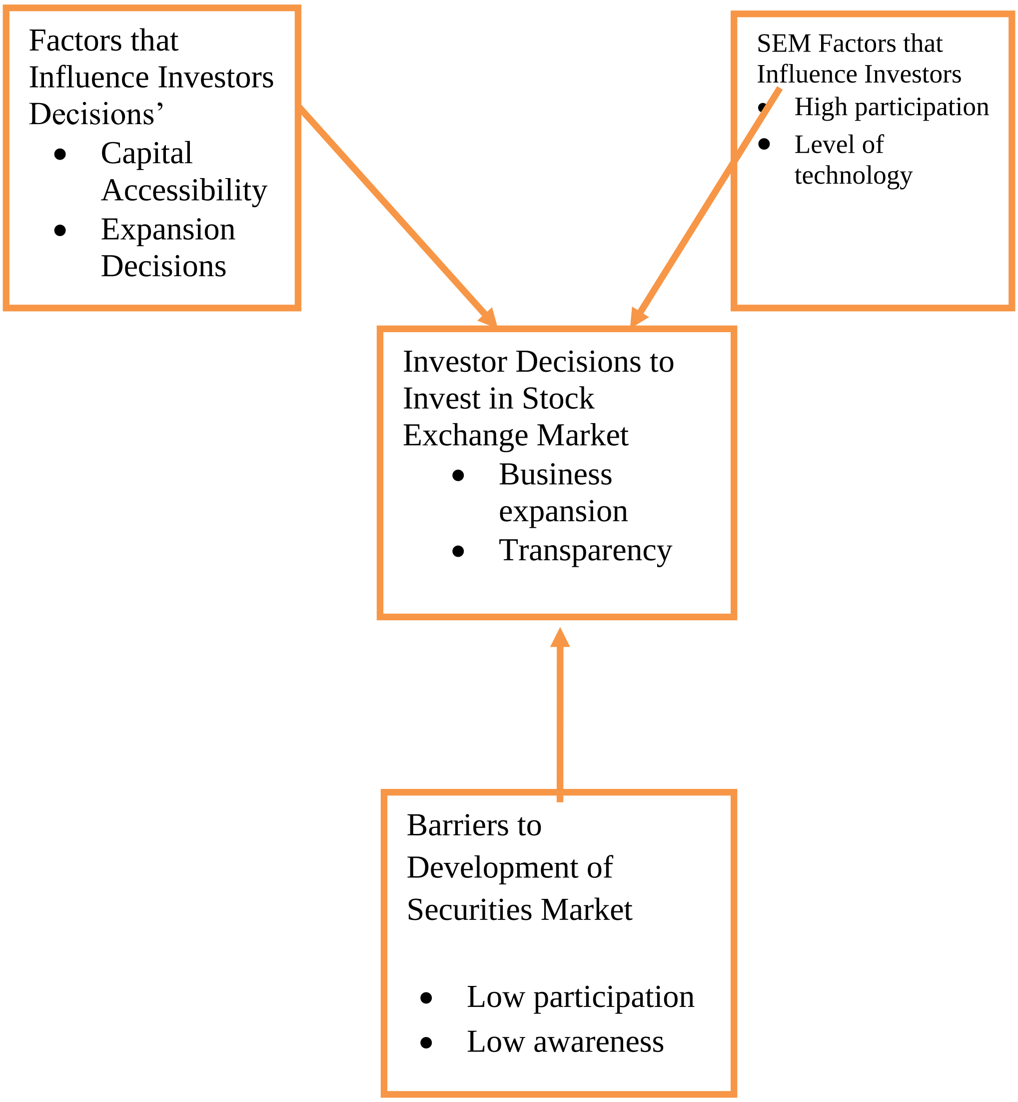
2.8 Research Gap

A number of studies and researches have been done on various aspects concerning role of Stock Exchange market. But there is no study that examines the role of Stock Exchange market on investors' decisions. This study therefore intends to assess role of Stock Exchange market. The study will take an insight on DSE. The main focus of this study will be to complement the other researchers by contributing towards filling this gap.

2.9 Conceptual Framework

The study assumes that, there are different factors influencing investor decisions to invest in stock. These involve three things; factors influence investors decisions', SEM factors that influence investors and investor decisions to invest in stock exchange market. Also, the study assumes that, factors influence investors decisions' are characterized by capital accessibility and expansion. Moreover, it assumes that SEM Factors that Influence investors are high participation and level of technology. Finally, the study assumes that investor decisions to invest in stock exchange market are characterized by business expansion transparency. These assumptions are summarized in Figure 2.1

Figure 2. 1: Conceptual Framework



Source: Researcher construction, 2014

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Under this chapter various aspect have been addressed on the methods that was applied in carrying out the research study, including ways on how data was collected as well as general conduction of the study. This chapter describes the study design, study area, sampling technique, sample size, and data collection techniques as well as data analysis.

3.2 Research Design

A case study design was used because participants were come from a single case; also an experimental study design is not appropriate because there were no random assignment of participants into control and treatment groups. Also case study is mostly associated to qualitative research method use to study organization (Saunders et al, 2009). Case study was opted because it allows the use of various data collection methods so as to reach the validity and reliability coverage of the study and also it was cheaper and less time consuming due to limited of resources, it also gave a researcher the possibility of having much focused study.

3.3 Area of the Study

The study was conducted in Tanzania in Dar es Salaam city. Dar es Salaam city was chosen by the researcher as optimal area of this study for two reasons. First, the limitation of time and budget constraints, which limited the researcher to cover the whole country, made Dar es Salaam city a sufficiently representative sample for the study. Secondly, in Dar es Salaam city there are almost all the stakeholders of this study, which are CMSA, DSE, listed and unlisted companies, as well as institutional and individual investors.

3.4 Population of the Study

Population refers to the total of items about which information is required (Kothari, 2001). The research's target population will be issuers and investors of securities in Tanzania. These were composed of current and potential issuers/suppliers as well as individual and institutional investors of securities in Tanzania. All listed companies (issuers) and some potential issuers were included in the study. Individual investors were approached through visits at DSE.

3.5 The Sample Size and Sampling Technique

When conducting research, it is often impossible, impractical or too expensive to collect data from all the potential units of analysis including the research problem. Hence a small number of units, a sample are often being chosen to represent the relevant attributes of the whole set of units of the population. Because the sample are not perfectly representatively, representative population from which are drawn, the researcher cannot be a certain the conclusion were generalized to the entire population. Therefore, the sample size of the study was comprised of 70 respondents.

The study used purposive sampling, Purposive sampling is the one in which the person who is selecting the sample is who tries to make the sample representative, depending on his opinion or purpose, thus being the representation subjective. Purposive sampling was used to select respondents; this sampling method involves purposive or deliberate selection of particular units of the universe for constituting a sample which represents the universe. Purposive was used because some of the respondents were not available at the time of data collection.

3.6 Data collection Methods and Instruments

The following data collection methods and instruments were used:-

3.6.1 Questionnaire Instrument

A questionnaire refers to questions printed or typed in a definite order on a form or set of forms, the respondents have to answer the questions on their own (Kothari, 2004). The researcher was prepared questionnaire, structured and unstructured questionnaires. Structured questionnaires are those questionnaires in which there are definite, concrete and pre-determined questions. When characteristics are not present in a questionnaire, it can be termed as unstructured (Saunders and Thornhill, 2009). The use of questionnaire is of advantage because of economy, influencing interview's bias and the possibility of anonymity. Before all, a pilot study was conducted for pre-test questionnaire. By using this method researcher have to distribute self administered questionnaire to the respondents.

3.6.2 Interview Method

The interview method of collecting data involves presentation of oral-verbal stimuli and reply in terms of oral-verbal responses (Kothari, 2004). This involves verbal interaction between the researcher and respondent. The researcher was prepared the interview guide questions in connection to research questions. Structured Interviews was administered to the respondents. For the purpose of collecting well detailed information, unstructured interview schedules were used. This is because an interview is essential; for understanding data obtained through quantitative methods (Kothari 2004).

3.6.3 Interview Guide

This is guideline of how interview is going to be conducted. An interview guide should be created prior to all interviews to ensure the interviews are focused and efficient and enable comparison and summarisation. The interview guide enables standardisation of interviews for effective comparison and summarisation (Kothari, 2004). Researcher was prepared interview guide in connection to research objectives.

3.6.4 Documentary Review Method

Documentary review refers to the analysis of documents that contain information about the phenomenon we wish to study (Saunders and Thornhill, 2009). Documents are important in research because bridges the information obtained from data collected through the use of other research methods such as observations and interviews.

3.7 Data Analysis

Data were processed through manual sorting by editing, coding, classification and compilation. Finally all data were summarized on data masters sheet for analysis. After processing, quantitative analysis was conducted to get descriptions in percentage and tables, graphs were used as the basis for discussion and comments. The collected data will be processed through manual sorting by editing, coding, classification and compilation. Finally all data was summarized on data masters sheet for analysis.

Data analysis was conducted after editing the collected data. Data editing is generally preferred over statistical imputation, and it is used whenever a missing item can be logically inferred from other data that have been provided. When information exists on the same record from which missing information can logically be inferred, that information is used to replace the missing information. The advantage of data editing is that it avoids the increase in variance that occurs when missing items on one record are imputed with no missing responses from other records.

CHAPTER FOUR

STUDY FINDINGS

4.1 Introduction

This chapter describes the results of the study based on quantitative and qualitative analysis. Quantitative results are presented using tables, charts and narrations respectively. While qualitative results are presented in summary to enhance the understanding of quantitative information

4.2 Respondents Characteristics

A respondents' characteristic of respondents was asked in terms of their age, sex, level of education and occupation in order to determine if it has any influence on the role of stock exchange market to investor's decision making.

4.2.1 Age Group

The study was interested to find the age groups of the respondents in order to identify if were capable to provide responses, and to establish the influence of age on the role of stock exchange market to investor's decision making. Management and employees were asked to identify their Age; in their reply the study found that majority of the respondents (44%) were age between 35 and 44 years, as presented in table 4.1

Table 4. 1: Age Group

Variables	Respondents	Percentage
15-24	6	9%
25-34	14	20%
35-44	31	44%
45-54	12	17%
55+	7	10%
Total	**70**	**100%**

Source: Field Data, (2014)

Table 4.1 shows the age groups of the respondents, majority of the respondents (44%) were in age between 35 and 44 years. Minority of the respondents (29%) were aged between 15 and 34, insignificance number of respondents (27%) were aged between 45 and 55+. This implies that majority of the respondents were capable to provide responses for study

4.2.2 Gender

The study examines Gender of the respondents in order to establish its influence on the role of stock exchange market to investor's decision making. Management and employees were required to identify their gender, in their reply we found that majority of the respondents (63%) were female as presented in table 4.2.

Table 4. 2: Gender

Variables	Respondents	Percentage
Female	44	63%
Male	26	37%
Total	**70**	**100%**

Source: Field Data, (2014)

Table 4.2 shows gender that majority of respondents (63%) were female while minority of respondents (37%) were male this implies that majority of the DSE employees were female.

4.2.3 Level of Education

The study examined the level of education of the respondents in order to identify if it has any influence on the role of stock exchange market to investor's decision making. Both management and employees were asked to identify their level of education. The study found that majority of the respondents (54%) was first degree holders as shown in table 4.3

Table 4. 3: Level of Education

Variables	Respondents	Percentage
Certificate	6	9%
Diploma	15	21%
First degree	38	54%
Post Graduate	11	16%
Total	**70**	**100%**

Source: Field Data, (2014)

Table 4.3 shows the level of education of the respondents the study found majority of respondents (54%) have a first degree

4.2.4 Occupation of the Respondents

The study was interested to examine occupations of the respondents in order to determine the influence of occupation on the role of stock exchange market to investor's decision making respondents, were asked to identify their occupation, in their reply the study found majority of the respondents (33%) are brokers as shown in table 4.4.

Table 4. 4: Occupation

Variables	**Respondents**	**Percentage**
Brokers	23	33%
Investors	19	27%
Finance Officers	6	9%
Administration Officers	15	21%
Procurement Officers	7	10%
Total	**70**	**100%**

Source: Field Data, (2014)

The results in Table 4.1 shows majority of the respondents (33%) were brokers also the study founds that insignificant numbers of respondents (27%) were investors. Moreover the study found (21%) and (10%) of the respondents were administration and procurement officers respectively .further more the study found that the smallest number of respondents (9%) were finance officers.

4.3 SEM Factors that Influence Investors' Decision Making

The study was interested to identify the Stock Exchange Market factors that influence investor's decision making. Respondents were asked to detect factors influencing investors on investments decision making. The study found out of 70 respondents 30 (43%) identified Past performance of the company's stock as a major factor influencing investors decision making, as shown in Table 4.5

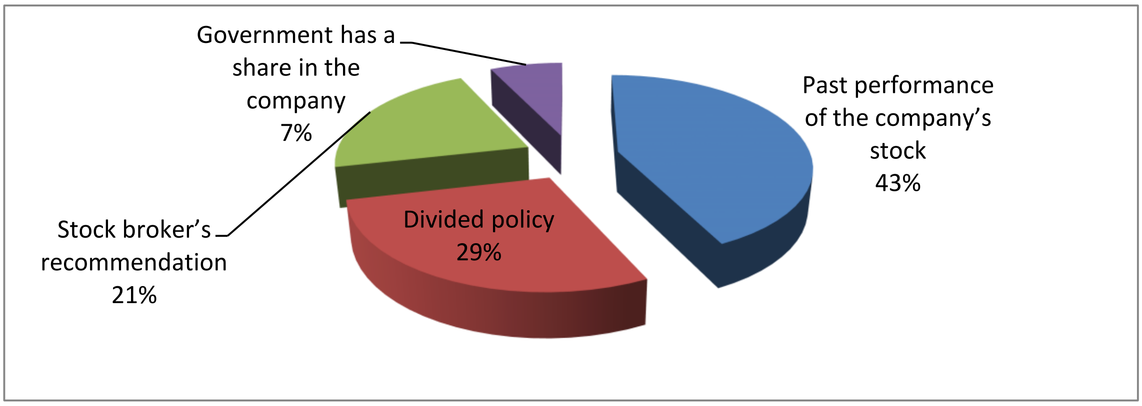
Table 4. 5: SEM factors that Influence Investors' Decision Making

S/N	Responses	Frequency	Percentage (%)
1	Past performance of the company's stock	30	43
2	Divided policy	20	29
3	Stock broker's recommendation	15	21
4	Government has a share in the company	5	7
	Total	**70**	**100%**

Source: Field Data, 2014

Table 4.5 presents SEM factors that influence investor's decision making. The study found out of 70 respondents 30 (43%) identified Past performance of the company's stock as a major factor. Also the study found average number of the respondents (29%) see believe Divided policy as other factor that influence investors decision making. Furthermore the study found significant number of respondents (21%) which suggested Stock broker's recommendation also influence investors decision making, and a small number of respondents 5 out of 70 that is (7%) proposed Government having a share in the company influences investors decision making as illustrated in Table 4.5

Figure 4. 1: SEM factors that Influence Investors' Decision Making



Source: Field Data 2014

4.4 Factors that Influence Investors to Invest in DSE

The study was interested on identifying the factors that influences investors to invest in Dar es Salaam Stock Exchange (DSE). Respondents were asked to recognize the Basic reasons that causes the investors to invest in Dar es Salaam Stock Exchange, in their reply the study found majority of the respondents 37 out of 70 that is (53%),these respondents identified company's reputation is the basic factor for Tanzania Investors to invest in DSE, as shown in Table 4.6

Table 4. 6: Factors that influence investors to invest in DSE

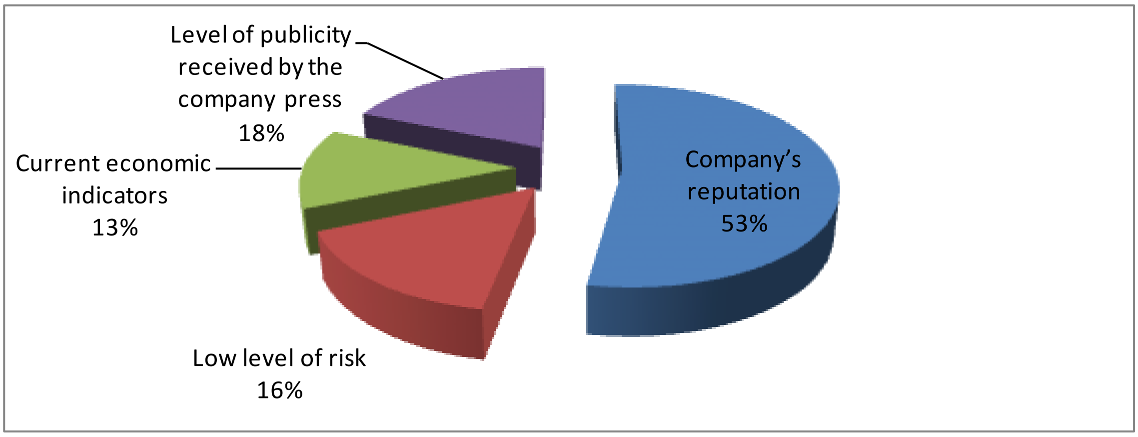
S/N	Response	Frequency	Percentage (%)
1	Company's reputation	37	53.0
2	Low level of risk	11	15.7
3	Current economic indicators	9	12.8
4	Level of publicity received by the company press	13	18.5
	Total	**70**	**100%**

Source: Field Data, 2014

Table 4.6 presents the Factors that influence investors to invest in DSE. The study found out of 70 respondents, 37 (53%) identified Company's reputation. This implies Company's reputation plays a major role in influencing investors to invest in DSE. The study observed that, many investors in Tanzania looks at company's status economically when investing their money. Meanwhile more emphasis was placed on the factor of Company's reputation, since it was reported the major by investors.

Also the study found significant number of respondents (18.5%) that identified the Level of publicity received by the company press. Moreover, the study also found average number of respondents (15.7%) identified Low level of risk as another factor that influences investors to invest in DSE and (12.8%) of respondents identified Current economic indicators as also the factor that causes the investors to invest in Dar es Salaam Stock Exchange, as illustrated in Figure 4.2

Figure 4. 2: Factors that influence investors to invest in DSE



Source: Field Data 2014

4.5 Barriers to the Development of Securities Market in Tanzania

The study was interested to examine the Development of Securities Market in Tanzania. Respondents were asked to identify the barriers to the development of securities market in Tanzania; in their reply the study found majority of the respondents (61.7%) identified Poverty and the Domestic Investment Environment as the major Obstacle in the development of securities market in Tanzania, as shown in Table 4.7

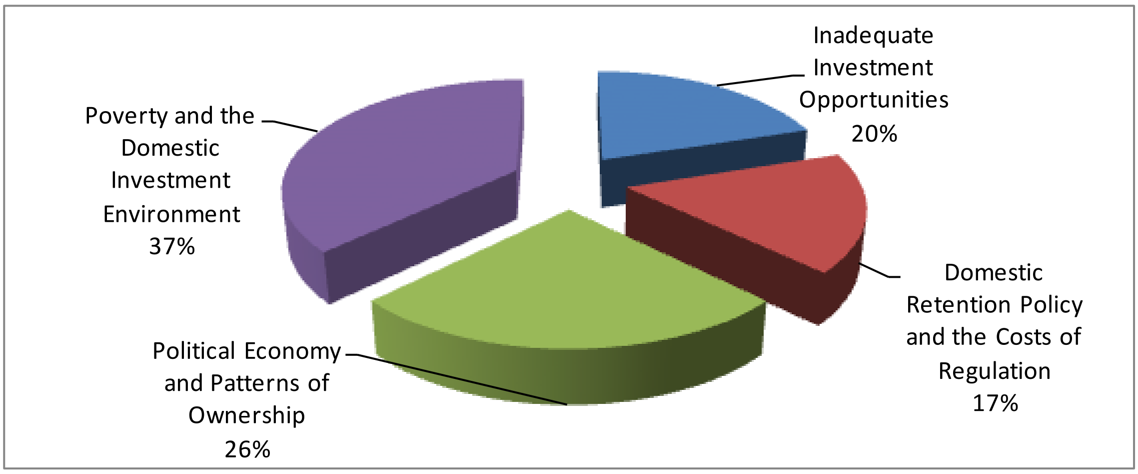
Table 4. 7: Barriers to the Development of Securities Market in Tanzania

S/N	Response	Frequency	Percentage (%)
1	Inadequate Investment Opportunities	14	20
2	Domestic Retention Policy and the Costs of Regulation	12	17.1
3	Political Economy and Patterns of Ownership	18	25.7
4	Poverty and the Domestic Investment Environment	26	37.1
	Total	**70**	**100**

Source: Field Data 2014

Table 4.7 offers Barriers to the Development of Securities Market in Tanzania. The study found out of 70 respondents 26 (37.1%) identified Poverty and the Domestic Investment Environment as a major barrier. Also the study found small number of the respondents (20%) and (17.1%) sees Inadequate Investment Opportunities and Domestic Retention Policy and the Costs of Regulation respectively as the barriers to the development of securities market in Tanzania members. Moreover the study found significant number of respondents (25.7%) suggested Political Economy and Patterns of Ownership, as illustrated in figure 4.6

Figure 4. 3: Barriers to the Development of Securities Market in Tanzania



Source: Field Data 2014

Figure 4.3 illustrates barriers to the Development of Securities Market in Tanzania. The study found the large number of the respondents (37.1%) (25.7%) (20%) identified Poverty and the Domestic Investment Environment, Political Economy and Inadequate Investment Opportunities respectively. The study also identified Domestic Retention Policy and the Costs of Regulation which is 17.1% as one of the major barriers of securities market development.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

4.1 Introduction

This chapter presents discussion of the research findings. The first section of the chapter gives SEM factors that influence investors' decision making whereas factors that influence investors to invest in DSE are discussed in second section. The last section of the chapter gives barriers to the development of securities market in Tanzania.

4.2 SEM factors that Influence Investors' Decision Making

4.2.1 Past Performance of the Company's Stock

The study found majority of the respondents (43%) identified past performance of the company's stock. According to Kibola, (2008), the performance of the companies that were the first to list shares with the DSE market and reasons backed people to invest in such companies. The first company to list its shares with the DSE was the Tanzania Oxygen Company Gas Limited (TOL).

The observation, however, reveal that those who purchased shares encountered what could be termed as loss, since the TOL Gas Limited share value dropped from TZS 500 in 1998 to TZS 290 in 2009. On the other hand there are companies that have flourished. Such companies include the Tanzania Tea Packers Limited (TATEPA), which experienced the rise of share value from TShs. 330 as an Initial Price Offer in the year 2000 to TZS 510 in 2009. Further, Breweries Tanzania Limited has her shares increased value from IPO of TZS 550 in 1998 to TZS 1850 in 2009 (DSE, 2009). Other company such as NICO has IPO of TZS 300 in 2005 as on 4th March, 2009 the price has decreased to TZS 2851 (Muganga, 2005)

4.2.2 Divided Policy

The study found significant number of the respondents (20%) identified dividend policy of the company is one of the SEM factors that influence investors' decision making. Dividend per share shows how much a company pays out in dividends each year relative to each of its share. In the absence of any capital gains, dividend is the return on investment for a stock. Madamba, F. (2001), contended that dividends, expected returns and the firm's financial stability are critical investment considerations for individual investors , and Demirguc-Kunt, and Levine, (1996), went a step further by proposing that investors behave rationally, taking into account the investment's risk/return tradeoff.

4.2.3 Stock Broker's Recommendation

The study found important number of the respondents (21%) identified Stock Broker's Recommendation influence investors' decision making. The recommendations of brokerage houses, individual stock brokers, family members and coworkers go largely unheeded. Many individual investors discount the benefits of valuation models when evaluating stocks. Recommendations by reputable and trusted stock brokers, management team of the company and composition of Board of Directors make the list of social factors.

For the cultural factors, we considered friends advice/persuasion (peer pressure), predominant family culture in share investment, awareness of the prospects of the investment in shares, exposure to the business of share trading and environmental influence; while the psychological factors tested include future financial security, motivation from exploration on literature on financial securities, insight to probable operational setbacks in the future, fear of anticipated career, profession or occupational related problems and motivation by the people who have attained financial security through share investment (Cohn, 2000).

4.3.4 Government has a Share in the Company

The study found small number of the respondents (7%) identified Government has a share in the company influence investor decisions. Government holdings and the creation of the organized financial markets are the investor's considerations. Amine, (2012) conducted a study on Investors behavior and found that individual investors rely more on newspapers/media and noise in the market when making their investment decisions, while professional investors rely more on fundamental and technical analysis and less on portfolio analysis.

4.3 Factors that Influence Investors to Invest in DSE

4.3.1 Company's Reputation

The study found company reputation is a major factor to invest in DSE. Reputable and trusted stock brokers, management team of the company and composition of board of directors all had high influence on well over half of the respondents in their investment decisions. reputable and trusted stock brokers, management team of the company, awareness of the prospects of investing in shares, composition of board of directors of companies, recent financial performance of the company, ownership structure of the company, reputable predictions of future increment in share value, and bonus payments (Spring, 2009).

4.3.2 Low Level of Risk

The study found the significant number of the respondents (15.7%) identified Low level of risk. Henry (2000), provided tentative evidence that risk aversion decreases as the investor's wealth increases, while Riley and Chow showed that risk aversion decreases not only as wealth increases, but also as age, income and education increase. Horgan, (1999), added to the debate, by advocating that individuals' risk aversion is largely a function of visceral rather than rational considerations. On the other hand, Baker and Hunnurkar, (2006), contended that dividends, expected returns and the firm's financial stability are critical investment considerations for individual investors, and Endo, (2002), went a step further by proposing that investors behave rationally, taking into account the investment's risk/return tradeoff.

Risk tolerant investors are aggressive investors, willing to accept losing their capital in search for higher returns, while the risk averse, are more conservative investors who are more concerned with capital preservation. A risk tolerant investor will pursue higher potential reward investments even when there is a greater potential for a loss. In addition, a risk tolerant person would seek out high-risk investments, even if they add little to his or her portfolio.

4.3.3 Current Economic Indicators

The study found small number of the respondents (12.8%) identified Low level of risk. During an economic boom and bull market, people get accustomed to healthy, albeit paper, gains. When the market correction deflates investor's net worth, they're more hesitant to sell at the smaller profit margin. They create mental compartments for the gains they once had, causing them to wait for the return of that gainful period (Thaler, 2001).

4.5 Barriers to the Development of Securities Market in Tanzania

4.5.1 Inadequate Investment Opportunities

The study found important number of the respondents (20%) identified inadequate investment opportunities. The limited supply of new listings is largely a function of the size of domestic companies. The majority is small and medium sized enterprises and bank credit is more accessible at significantly lower cost to these firms than a stock market listing.

Equally important to both countries is the lack of a retail or institutional investor base. The paucity of listings plus the small free float capitalization percentages are a deterrent to foreign institutional investors who require greater market depth (Marone, 2003). If this were reversed it would raise the profile of the exchanges and increase the level of domestic activity. However, rigorous regulatory structures need to be in place for efficient primary and secondary markets although these should not add excessively to the cost of issue and compliance.

Competition for the provision of funds is from the banking sector, and a relationship based on debt is preferred to the dispersed ownership and loss of control associated with equity finance.

4.5.2 Domestic Retention Policy and the Costs of Regulation

The study found important number of the respondents (17.1%) identified domestic retention policy and cost of regulations. Attempts to limit capital flight have been proposed by the government to safeguard the newly established stock market by imposing a policy of domestic investment retention, similar to the protection of infant industries. The intention is to support national stock exchanges by encouraging firms to list locally rather than moving to the much more attractive. Unfortunately, rather than strengthening the domestic markets this is more likely to have a negative effect and deter new corporate listings altogether as it reduces risk-adjusted returns because of the high local costs of capital. International investors, and particularly the crucial institutional investment funds, find these small markets very unappealing as the returns are minimal compared with those to be gained on well functioning markets.

Some Southern Africa Development Corporation (SADC).

Governments have already imposed policies to ensure domestic investment retention. For example, in Namibia Regulation 28 requires that 35% of savings in pension and insurance funds must be invested in the domestic market.

Another institutional aspect of capital markets that falls within the responsibility of government is regulation, and as noted above, this has been very slow in its implementation. Stringent listing criteria and capitalisation requirements are essential to ensure confidence for both local and international investors. Historically, a major institutional failure in the majority of African markets is the lack of appropriate regulation, the importance of which is discussed by Beck and Levine (2003). In many countries, liberalisation was introduced at the same time as the infrastructure to increase participation and improve performance. However, both have either failed or are incomplete. There is a widespread lack of regulation that leaves the market vulnerable and investors unprotected, which is a major concern for investors. Markets where there is settlement risk because of small and under capitalized local brokerage houses and banks that are unable to underwrite domestic market share issues

Problems related to direct foreign investment also remain. Many countries have now introduced specific regulation covering foreign direct investment, but Uganda is an example where the securities regulator, the Capital Markets Authority, does not distinguish between different types of investor (IMF, 2005).

4.5.3 Political Economy and Patterns of Ownership

The study found important number of the respondents (25.7%) identified Political Economy and Patterns of Ownership as a major barrier. One issue that was touched on very briefly above is the initial motivation for establishing a stock market in these two countries. For many countries, this is a way to create a means of redistributing ownership from the state to the private sector as part of a privatization programme. However, in both cases considered here it appears not to be based on a wish to empower the general population but to redistribute ownership from the state to institutions representing the royal family (Horgan, 1999).

4.5.4 Poverty and the Domestic Investment Environment

The study found that large number of the respondents (37.1%) identified Poverty and the Domestic Investment Environment as major barriers. A major problem remains the high levels of poverty, where over 300 million live on less than US$1 per day (2004 data) (World Bank, 2003). Furthermore, savings and investment patterns for many are centered on livestock and physical or agricultural commodities and there is little inclination to trust monetary instruments. Savings rates as a proportion of GDP are low in both countries although recently saving rates, which reflect the dramatically changing business sector that has developed. But still 50% of the rural population live on less than US$2 a day and for many all disposable income is consumed

A further barrier to financial development in many African countries is the lack of large institutional investors that act as financial intermediaries for small savers, such as insurance and pension funds. Many individuals cannot afford insurance, particularly as additional premiums are incurred by plan holders to compensate for the losses that result from information asymmetries between the insurance providers and their clients. Equally, the potential to attract savings in the form of pension funds is extremely limited due to the rates of HIV/AIDS. This has had a huge impact in terms of the economic burden on the household and extended family. Funeral costs and medical expenses reduce incomes of households that are already poor to subsistence level and saving of any form is impossible (Endo, 2002). This is particularly severe in Swaziland where life expectancy has fallen to 31 years

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter presents conclusion and recommendations of the study. The first section of the chapter gives conclusion whereas recommendations are discussed in second section. The last section of the chapter contains areas for further studies.

6.2 Summary

The study on the role of stock exchange market in investor's decision making was conducted at Dar es Salaam Stock Exchange (DSE). The objectives of the study were: to identify Stock Exchange Market (SEM) factors that influence investors' decision making; to identify factors that influence investors to invest in DSE and to examine barriers to the development of securities market in Tanzania.

A case study design was used, whereas a sample of 70 respondents was involved. The study used purposive sampling, Purposive sampling is a sampling technique in which the person who is selecting the sample is who tries to make the sample representative, depending on his opinion or purpose, thus being the representation subjective. Questionnaires and interview were used in collecting primary data.

The study found that out of 70 respondents 30 (43%) identified past performance of the company's stock as a major factor influencing investors decision making. Also, the study found majority of the respondents 37 out of 70 that is (53%), identified company's reputation is the basic factor for Tanzania investors to invest in DSE. Moreover, the study found majority of the respondents (61.7%) identified poverty and the domestic investment environment as the major obstacle in the development of securities market in Tanzania.

The study concludes that there a different factors influence investors' decision making. These involve; past performance of the company's stock divided policy stock broker's recommendation and government has a share in the company. Also, the study concludes that company reputation is a major factor that influences investors to invest in DSE. The study recommends that the investors need to analysis the investment factors carefully using the reasonable business knowledge before making an investment decision

6.3. Conclusion

These markets have several common features such as their small size, limited opportunities for risk diversification, severe illiquidity and lack of institutions to support development of their undercapitalized formal business sectors. In neither case has the domestic economy as a whole gained from the establishment of the stock exchange, which has failed to provide a means of raising capital through new listings or by attracting foreign portfolio investment or FDI to supplement the low level of domestic savings.

A simple risk-return portfolio analysis provides confirmation that investors would choose to minimize holdings in both markets compared with the opportunity to hold. This is partly because the levels of volatility that follow sudden price movements in a highly illiquid market fail to compensate for the potential higher returns in these emerging markets.

6.4 Recommendations

The following are recommendations of the study:

i. Investors need to analyse the investment factors carefully using the reasonable business knowledge before making an investment decision. The investors should also be able to interpret the market and economic indicators since they influence the performance of the share on the market.

ii. Investors should evaluate all the variables in the environment instead of considering only one variable. Investors do also need to diversify their investment in different companies by developing a portfolio of investments to minimize risks and maximize returns.

iii. In order to boost investor’s confidence and enhance their trust in the securities market, Regulator (CMSA) and the Stock Exchange Market (SEM) are advised to provide and participate on awareness programs via intensive promotions and campaigns. Such initiatives would help investors to develop investment interest on securities market.

iv. Further, the investors are advised to change their culture of keeping their money on banks rather than investing the same to the securities market, where they will benefit directly on opportunities available on the securities market. This will result into a more active securities market in Tanzania

v. Furthermore, the potential issuers of securities market should be ready to grab the opportunities available in capital market at large, rather that keeping their firms away from the public for fear of disclosing affairs of their companies as well as fear of dilution of control.

vi. Financial information education should start at primary school, since it is the fact that if people cannot be financial information literate, the impact will affect the government and other institutions. And such provision of financial information education can be attained through specific Web sites, free information services and newspaper, brochures, and Television for the purpose of enabling the majority people get advantage of investing in the Stock Exchange.

vii. The greatest challenge to the regulator and policy maker is to improve the level of knowledge of the local investors, the intermediary, and the issuer for the successful development of the securities market in Tanzania. It should be noted that, the culture of learning new things to many Tanzanian is through word of mouth (hearing) or verbal rather than written form. Therefore radio, television and live promotion campaigns should be used to reach more people explaining financial investments in securities. These educational campaigns should involve the development of financial journalists for the development of securities markets.

viii. The savings of those not willing to invest in ordinary shares or wishing only minimum risk in investments can be mobilized through other specialized schemes under various savings and investment plans by financial institutions. These institutions should function as the authority of issuing shares and also as a guarantor and share investor to assist in developing the primary market, hence result to a developed market.

6.5 Areas for Further Studies

Impending research should attempt to explain the relative importance of decision variables have for individual investors making stock purchase decisions, Secondly, the study was conducted to investors in Dar es Salaam. The findings can be verified by conducting the same study in the rest of the country, and thirdly, whether there are homogeneous clusters or groups of variables that form identifiable decision determinants that investors rely upon when making stock investment decisions.

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APPENDECIES

Appendix I: Questionnaire

My name is **Lawrence J. Sangawe,** a Master's Student from Mzumbe University. I am conducting a research on **The Role of Stock Exchange Market to Investors' Decision Making.** Your participation on answering this questionnaire could make this research be effective and complete. Therefore I am kindly requesting your attention to read and answer the question below to the best of your knowledge and ability.

Please I request your attention and respond to the questions below so as to facilitate my research.

Part A: Personal Information

1. Age
    a) 15 – 24
    b) 25 – 34
    c) 35 – 44
    d) 45 – 54
    e) 55+
2. Gender
    a) Male
    b) Female
3. Level of Education
    a) Certificate
    b) Diploma
    c) First Degree
    d) Post Graduate (e.g. Masters or PhD)

4. Occupation

a) Brokers
b) Investors

Others, specify

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Part B: SEM factors

1. What are the major SEM issues that influence investor's decision making? Please identify

    a) Past performance of the company's stock

    b) Divided policy

    c) Stock broker's recommendation

    d) All of the above

2. Why is Level of technology becoming one of the major SEM factors that manipulate investor's decision to invest in any Stock Exchange? Please explain
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3. What other SEM factors that may pressure investor's decision to invest on Stock Exchange market? Please mention

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Part C: Factors that Influence Investors

1. What are the major factors that influence investor to invest basing on Stock Exchange market? Please identify

    a) Company's reputation

    b) Low level of risk

    c) Current economic indicators

    d) Level of publicity received by the company press

2. What other factors that may pressure investor's decision on Stock Exchange market? Please mention

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3. How does Low level of risk become one of the major factors that demands investor's to invest on Stock Exchange market? Please explain

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Part D: Barriers

1. What are the major barriers to the development of securities market in Tanzania?

    a) Inadequate Investment Opportunities
    b) Poverty and the Domestic Investment Environment
    c) Political Economy and Patterns of Ownership
    d) All of the above

2. How does Poverty and the Domestic Investment Environment become obstacle to the development of securities market in Tanzania? Please explain

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3. What are the initiatives that have been taken by DSE in minimizing these barriers? Please explain

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Appendix 2: Interview Guide

1. What are SEM factors that influence investors' decision making?

2. What other SEM factors that may pressure investor's decision to invest on Stock Exchange market?

3. What are factors that influence investors to invest in DSE?

4. What other factors that may pressure investor's decision on Stock Exchange market?

5. What are the barriers to the development of securities market in Tanzania?

6. What are the initiatives that have been taken by DSE in minimizing these barriers?