INVESTORS BEHAVIOUR AND DEVELOPMENT OF THE STOCK EXCHANGE MARKET IN SOME SELECTED COMPANIES IN RWANDA

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DECLARATION A

"This Thesis is my original work and has not been presented for a Degree or any other academic award in any University or Institution of Learning".

TUYIZERE M. FABRICE

Name and Signature of Candidate

31 / 08 / 2012

Date

DECLARATION B

"I confirm that the work reported in this Thesis was carried out by the candidate under my supervision".

Dr Jonas Onuwewe

Name and Signature of Supervisor

31 – 8 – 12

Date

DEDICATION

To my beloved parents and Mr. Juuko Nkusi Godfrey, to my brother and Sister for their love and support this study is dedicated.

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ABSTRACT

The study was carried out on investor's behavior and development of stock exchange markets in Rwanda. This was based on view that investors were not showing a lot of interest to participate in stock exchange due to poor attitudes and perceptions about Rwanda stock exchange hence the need to find out the factors that influence investors behavior.

The study used a descriptive design to describe investor's behaviours, it focused on Rwanda stock exchange, the Ministry of trade and transport, and corporate companies that deal in stock exchange markets. Data was collected using structured questionnaires and interview schedules. Data collected was analyzed using SPSS and inferential Statistics. The study found out that the stock exchange markets were growing at an increasing rate. However, they still face a lot of challenges that negatively influence investor's behavior like unstable stock prices on the market and the low level of investment in Rwanda's economy. There was a significant relationship between investor's behavior and stock markets development.

The study concluded that there is need for government to invest in the stock markets as well as advertising through the local media and internet to attract international investors to participate in the stock markets. Government should take the centre role to control the stock prices and provide security to the investors so that they can be sure that their capital is safe from losses.

Table of Contents

List of Tables

LIST OF ACRONYMS

BCR:	Commercial Bank of Rwanda
BHR:	Banque De L'habitat du Rwanda
BK:	Bank of Kigali
BNR:	National bank of Rwanda
BRD:	Development Bank of Rwanda
CMAC:	Capital Market Advisory Council
EA:	East Africa
EU:	European Union
EUT:	Expected Utility Theory
GDP:	Gross Domestic Product
KCB:	Kenyan Commercial Bank
NSE:	Nairobi Stock Exchange
OTC:	Over The Counter
RSE:	Rwanda Stock Exchange

SACCOs:	Savings and Credit Coperative Organizations
UBPR:	Union Des Banques Populaire Du Rwanda
UEMOA:	Union Economique et Monetaire Ouest Africain
UK:	United Kingdom
UNDP:	United Nations Development Programme
USA:	United States of America

CHAPTER ONE

THE PROBLEM AND ITS SCOPE

Background of the Study

Stock market is a market where stocks are bought and sold (Zuravicky, 2005). In an economy, besides playing the role of a source for financing investment, stock market also performs a function as a signaling mechanism to managers regarding investment decisions, and a catalyst for corporate governance (Samuel, 1996). However, stock market is best known for being the most effective channel for company's capital raise. People are interested in stock because of "long-term growth of capital, dividends, and a hedge against the inflationary erosion of purchasing power" (Teweless & Bradley, 1998).

The other feature that makes the stock market more attractive than other types of investment is its liquidity (Jaswani, 2008). Most people invest in stocks because they want to be the owners of the firm, from which they benefit when the company pay dividends or when stock price increases (Croushore, 2006). However, many people buy stocks for the purpose of control over the firms. Regularly, shareholders need to own specific amount of shares to be in the board of directors who can make strategic decisions and set directions for the firms.

Tracing back to the past, financial activities relating to stock market seemed to exist in ancient civilization. The Roman became the pioneer in establishing corporative organizations, of which capital was raised by selling shares into the public, for bidding government contracts in the second century BC (Sobel, 2000, and Smith, 2004). The place for trading in Rome was near the Temple of Castor, which was called Forum. The Forum was said to be regarded as an immense stock exchange where people bought and sold not only shares, bonds but also various goods for cash. By 1000, although some share-holding firms were held in Europe resembling old Roman companies, sole proprietorship was preferred (Sobel, 2000). By the fifteenth century, the first brokers appeared. During this period, Rialto Bridge of Venice was the business center for Europe.

According to Sobel (2000), the commercial revolution during the sixteenth, seventeenth and eighteenth century was the impetus for the boom and bust in hundreds of joint-stock ventures. The first active market was held in Antwerp and then in Amsterdam in the sixteenth century, which was the financial center of northern Europe. London Stock Exchange was formed in 1801 by brokers and dealer. In America, a place for trading slaves and corn was first held by a group of merchants in 1752, and then a formal market was established at the foot of Broad Street and later in Fraunces Tavern.

Nowadays, the stock markets are classified into three types: developed (such as the USA, the UK, Japan, EU...), emerging (such as Mexico, China, India...) and frontier or preemerging (such as Rwanda, Estonia, Kenya...) due to the quality of markets criteria. The USA is the most world-scale powerful economy, which has strong impacts on global security markets . Reza, Zamri and Tajul stated that Asian stock markets tend to fall into the control of the New York index on a day-to-day basis. Whereas, Patricia and Oluwatobi found that the major stock markets of the world including the US, the UK and the EU, are converging at least over the long-term period, although, the US and the UK stock markets seem to be less bound to a common trend. In other words, the influence and the dependence of stock markets on the others are relatively high. Therefore, the global issues such as: terrorist movements, energy crisis, natural calamity have had a great influence on the volatility of all security markets around the world, specifically in the USA, the UK and Japan (Fernandez, 2006).

Many researchers consider behavioral finance as good theory to understand and explain feelings and cognitive errors affecting investment decision-making (Waweru et al, 2008). Supporters of behavioral finance believe that the study of social sciences such as psychology can help to reveal the behaviors of stock market, market bubbles and crashes (Gao & Schmidt, 2005). There are two reasons why behavioral finance is important and interesting to be applied for Rwanda stock market. Firstly, behavioral finance is still a new topic for study.

Kim and Nofsinger (2008) notes that, until recently, it is accepted as a feasible model to explain how investors of financial markets make decisions and then these decisions influence the financial markets. Secondly, due to some evidences –subjective, academic, and experimental – it is concluded that Asian investors, included Rwandese, usually suffer from cognitive biases more than people from other cultures. Behavioral finance studies have been carried out popularly in developed markets of Europe and the USA (Caparelli, Arcangelis & Cassuto, 2004: Fogel & Berry, 2006) as well as in emerging and frontier markets, for example Malaysia and Kenya Lai, 2001: Waweru et al, 2008). However, the number of studies using behavioral finance for frontier and emerging markets is much fewer than for developed markets. In this study, behavioral finance is used for Rwanda stock exchange, a pre-emerging stock market of Africa, to recognize the driven companies investors' behavior. The author hopes that this study can enrich the number of studies using behavioral finance for less developed security markets such as Rwanda.

Statement of the Problem

Stock exchange markets are new phenomenon that has been introduced into the Rwanda's economy. These have attracted foreign exchange hence the development of Rwanda as a country. The investment potential of investors depends on their attitude and perception about Rwanda's economy and the economic situation within the country (Ministry of Trade and Transport report, 2009/10).

Negative attitudes towards Rwanda as a young economy have hindered the development of stock exchange markets as investors are not willing to risk their money into a fragile economy. This has caused low prices for the share prices, and loss of capital invested in stock market hence affecting the overall economy (Veld, 2008).

The existence of bureaucracies within Rwanda that deal with control the stock exchange sector also make it an uphill task for investors to participate most especially foreign investors. This has been coupled with failure to use ICT services in selling and buying shares. The challenges threaten the development of stock exchange market as they create bias hence negative attitude on the side of investors.

The purpose of this study therefore is to find out how investors affect the development of stock exchange markets in Rwanda, hence paving way on how investors can be encouraged so as to change their behaviors towards the stock exchange markets.

Purpose of the Study

To assess the investors behaviours in relation to stock exchange development such that policy recommendations can be adopted to enhance investors attitude towards stock exchange in Rwanda.

Objectives of the study

General objective

The major objective of the study was to determine the relationship between investors' behaviour within the stock exchange markets and the development of security exchange markets in Rwanda.

Specific objectives

The study was guided by the following specific objectives;

1. To determine respondents profile involved in the study
2. To determine the trend of investors attitude towards stock exchange in Rwanda.
3. To determine the factors contributing to investors behaviours towards stock exchange in Rwanda.
4. To determine the rate of stock exchange development in Rwanda.
5. To find out the relationship between investors behaviours and stock exchange development in Rwanda.

Research Questions

1. What is the profile of the respondents involved in the study?
2. What is the trend of investors' attitude towards stock exchange in Rwanda?
3. What are the factors contributing to investor's behaviours towards stock exchange in Rwanda?
4. What is the rate of stock exchange development in Rwanda?
5. Is there the relationship between investors' behaviours and stock exchange development in Rwanda?

Hypothesis

1. There is no relationship between investors' behaviors and stock exchange development in Rwanda.
2. The rate of stock exchange development influences investors' behavior.

Scope

Geographical scope

The study was carried out in Rwanda Specifically Kigali City where the stock markets are located. The Area is a populated urban centre with most of the corporate companies and stock market centres which makes it convenient for the study.

Theoretical Scope

The researcher used theoretical perspectives according to Kahneman and Tversky(1979). The main idea of behavioral finance models is to discuss the various biases behind judgments and decisions under uncertainty. These biases mainly cover the Emotional, bounded reality, social factors, as well as cognitive Biases.

The researcher used also the expected utility theory (EUT) according to Rizzi(2008).It focused on subjective decision making from different perspectives.prospect theory focuses on subjective decision making influenced by investors' value system, whereas EUT concentrates on investors rational expectations.

Content scope

The study covered the trend at which the stock exchange markets were growing at in Rwanda. It focused on the factors that influenced investors behaviors towards the Rwanda stock exchange markets, the study tried to draw the relationship between investor's behavior and stock exchange markets development so that remedial measures can be taken to combat the negative investor's behaviour hence promoting the development of stock exchange markets in Rwanda.

Time scope

The study was carried out within a period of six months starting from November 2011 to 2012.This time was taken so that the researcher can have ample time to go through all the major steps of research. The study focused of a period of four years starting from2008 to 2011.This helped the researcher to trace the trend of stock markets development in Rwanda.

The study was carried out at the Rwanda Stock exchange. The Rwanda Stock Exchange (RSE) is Rwanda's principal stock exchange. It was founded in January 2011. The RSE is operated under the jurisdiction of Rwanda's Capital Markets Advisory Council, (CMAC), which in turn reports to National Bank of Rwanda, the country's Central Bank.

The study investigated the factors influencing investor behaviour on the Rwanda Stock exchange. The study was limited to the objectives of the study because of time constraint.

The variables to be considered in the study are Behavior Finance Perspective of Individual Investor; Risk Perception, Risk Tolerance and Portfolio Choice; and Investor's Socio-Economic Status and Risk Tolerance.

Significance of the Study

This study will benefit the following disciplines:

To the investors: The research is a good reference of stock-investment behavior for the investors to consider and analyze the stock market trend before making suitable decisions of investment.

To the security organizations: The research provides them with a good background for their prediction of future stock-market trend and giving more reliable consultant information to the investors.

To the field of behavioral finance: The concepts of behavioral finance are relatively new in comparison to other financial theories. In developed security markets, behavioral finance is applied widely to explore the behaviors that impact the investment decisions; however, as mentioned above, behavioral finance has the limited number of application for less developed security markets. This study is done with hope to confirm the suitability of using behavioral finance for all kinds of stock markets.

To the researcher: The research provides a good chance for the researcher to understand more theoretically and practically about the stock market as well as the theories of behavioral finance.

Operational Definitions of Key Terms

The following terms have been defined in the context of this research;

Disposition Effect: Is the phenomenon of investors selling 'winning' assets that gained value, while keeping 'losing' assets and stocks that have lost value

Loss Aversion: Is when investors are much more bothered by potential losses than they are pleased by equivalent gains.

Investment behavior: is how the investors judge, predict, analyze and review the procedures for decision making, which includes investment psychology, information gathering, defining and understanding, research and analysis.

Security Analysis: Is used to decide intrinsic value of stocks based on studying factors of economy situations, industry trend and sales revenues of those companies.

Development: it is how stock exchange improves its economic activities of buying and selling shares by various companies.

Stock exchange market: is a physical place where shares and bonds are bought and sold.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Concepts, Opinions, Ideas from Authors/ Experts

According to many researches and financial institutions, the market is composed of rational investors and educated professionals making decisions that make up the true value of assets. However, this is not always the case, as there are competing theories which state that the market is driven by other forces as well, including the irrational behavior of investors, which is also referred to as "Behavioral Finance". Behavioral finance has introduced psychology into finance in the 1950s. It is the study of the effect of psychological factors of investors' behavior on the market (Vias, 2006).

The study of behavioral finance is considered relatively new but it is undeniable that it has been gaining a global recognition, especially after Daniel Kahneman, a psychologist, has won the 'Nobel' Prize in Economics in 2002 for having integrated insights from psychological research into economic science concerning human judgment and decision-making under uncertainty (Shapira and Venezia 2000). In addition, Gounaris and Prout (2009) have suggested that the current negative global turmoil has put the study of behavioral finance under the microscope, as most financial professionals are relying on behavioral finance to get important insights about the financial collapse in order to make better decisions and more rational investments in the future.

Several scholars and researchers have developed different definitions of behavioral finance. In 2008, Sewell provided a simple definition of behavioral finance as the study of psychological behavior of financial investors and the subsequent effect on markets. Additionally, the same author explained that behavioral finance is of interest because it helps explain why and how markets might be inefficient. Similarly, Maditinos et al. (2007) also termed behavioral finance as an emerging study that is gaining acceptance among economists, due to its success in explaining market reality, and in providing evidence related to behavioral psychological factors that play significant roles in financial decisions. Previously, Thaler (1993) has described behavioral finance as an "open minded finance", while Olsen (1998) have identified it as a new pattern of finance theory, which looks at the financial decision making from a behavioral and psychological perspective.

Nonetheless, der Sar (2004) argued that even though the behavioral finance is increasingly recognized, the importance of the traditional finance model is not to be ignored. The author claimed that the standard financial model is still to be considered, as the economic world has no general agreement on the importance or impact of behavioral finance. In addition, the same author explained that according to Fama (1998) realized returns are associated with the risk and any unusual events may be considered as chance events with abnormal returns. Likewise, From let (2001) asserted that the work of behavioral finance is not to eliminate the fundamental work of the traditional finance approach, it actually adds to the importance of unpredicted and irrational behavior to make it more realistic by incorporating the investors' reactions and behavior in the decision-making process. According to the same author, without the input and work of behavioral finance, some characteristic of the financial markets will be unclear and unexplained. The next section will further explain some models and findings in the study of behavioral finance to create a better understanding of how investors think and feel.

INVESTORS BEHAVIOR

Financial models commonly treat investors as independent agents. These agents trade to smooth consumption, rebalance their portfolios, or to exploit private information.

In contrast, recent empirical work has found that investors trade far more than these models would predict. Odean (1999) attributes the excessive trading to an incorrectly perceived information advantage. If individuals act independently, these frequent, sub-optimal trades may well wash out without affecting prices, but there is growing evidence that individual actions are related.

Shiller (1989) shows that, Investing in speculative assets is a social activity. Investors spend a substantial part of their leisure time discussing investments, reading about investments, or gossiping about others' successes or failures in investing. It is thus plausible that investors' behavior (and hence prices of speculative assets) would be influenced by social movements." Sorescu and Subrahmanyam (2006) provide evidence that investors focus on the content of analyst recommendations, and do not much consider the skill of the person making them, which suggests that they may also be open to peer influence.

Ivkovic and Weisbenner (2007) found that investors are more likely to purchase stocks from a particular industry if other investors in their zip code purchase stocks from that industry. Hong, Kubik, and Stein (2005) show that mutual fund managers' holdings are similar to those of other managers in the same city, and suggest that; The evidence can be interpreted in terms of an epidemic model in which investors spread information about stocks to one another via word of mouth." Feng and Seasholes (2004) provide evidence that trades in a particular province in the People's Republic of China are more correlated internally than they are with trades placed in a second province. In Finland, Grinblatt, Keloharju, and IkÄaheimo (2007) show that neighbors influence automobile purchase decisions, which suggests that they may influence portfolio decisions as well.

Many characteristics of populations and markets can affect individuals' buying rate of a particular stock. News tends to cause investors to react together, which could possibly be mistaken for social interaction-based trading if not included in the model. Barber and Odean (2008) show that news about a stock encourages individual investors to trade it. Frieder and Subrahmanyam (2005) found out that investors tend to trade stocks with brand names that they recognize, and possibly have seen in news and advertisements.

EVOLUTION OF CAPITAL MARKET IN AFRICA

In the last 19 years (1990-2009), liberalization and privatization have become dominant themes in development strategies in Africa .The changing attitudes towards the role of the private sector in the economies have facilitated the development of the capital markets. In the 1990s many countries in Africa set up stock exchanges as a precondition for the introduction of market economies under the structural adjustment programs propagated by the international monetary institution and to facilitate the privatization of state owned enterprises.

Currently, Africa has thirty one securities exchanges, two of which began operation in 1880s which are South Africa and Egypt stock exchange and twenty nine which began after 1990s.

The growth in market capitalization in Africa has been described as remarkable as more countries outside of more advanced economies of the Maghreb Region (Northern Africa) and south Africa venture into the development of their capital markets.(BRVM-Regional stock exchange in West Africa composed of eight (8) French-speaking members of the West Africa Economic and Monetary Union (UEMOA), namely, Benin, Burkinafaso, Cote d`Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo (UNDP, 2003).

The growth has not only been in market capitalization, but in innovation characterized by the integration of regional markets in the francophone countries of West Africa. 8 french speaking members of the west African economic and monetary union UEMOA (Union Economique et Monetaire ouest africain), Namely, Benin Burkina Faso, cote d`ivoire ,guinea Bissau ,Mali ,Niger, Senegal and Togo created the world`s first regional exchange , the bourse regionale des valeurs mobilieres (BRVM-Regional stock exchange) (Ibid).

The objective for integration was the consolidation of the value for developing common hub for capital market development in the geographical zone where these countries are located. The BRVM-Regional stock exchange has been innovative in using the most modern electronic and satellite communication equipment ,which has enabled it to maintain performance despite the under developed communications infrastructure in the individual countries comprising the exchanged(Brant Wiseman III,2003).another example of integration is in the East African countries of Kenya ,Uganda ,Tanzania and Rwanda which are in the process of integrating their stock markets into a regional east African stock exchange market .

The majority of the countries in Africa have established new legal and regulatory regimes .International financial institutions such as the International finance corporation of the World Bank and various bodies of experts belonging to national securities exchanges of industrialized countries have provided important assistance with a view to building the legislative, regulatory and accounting basis for the proper running of Africa securities exchanges.(Report on The Nigerian stock market Performance,1990-2003).In addition ,inflation rates are on the decline and currencies are generally considered stable.

The Africa markets are not closely linked to other international markets as is the case in Asia .While this may be a disadvantage to their growth, this independence has made the attractive to investors who are looking for markets that will not be significantly affected by shocks to major world markets as was the case during the Asian crisis in the 1990s.In addition, equity investors traditionally look for high growth opportunities and Africa offers an un paralleled opportunity in that regard(Ibid).The returns on investment in Africa are beginning to be very impressive despite weaknesses inherent in the capital markets.

Examples of Africa stock markets with impressive market performance:

a) The Nigerian Stock Exchange was established in 1960 and is an example of stock market in Africa that has experienced tremendous growth in the two decades. In June 2004, the all share index stood at 27,692.36 points having risen from 100 in 1984, the base year (Benimadhu, Sunil, 2004).
b) The Mauritius Stock Market is an example of young Africa stock market that has also experienced significant growth .It was set up in 1989 and is currently operating in line with standards observable in well-established developed stock exchanges. It boasts a world class stock exchanges infrastructure with state of the art automated trading system, a modern central depository system and a demutualised (Okereke, 2003).

EAST AFRICAN STOCK MARKETS

The NSE index grew by 300% between 2002 to close at 5,645.65.Between January and December 2006, the NSE market capitalization increased by over 70%from kshs 463 billion (USD 12 billion).Today, the NSE has 50 listed companies.

On the other hand, Uganda has 9 listed companies and Tanzania has 10 listed companies and coincidentally their market capitalization stands equal at USD 2.4

billion each. All the three EA Stock Exchanges are companies limited by guarantee but the NSE has planned to demutualise during the first quarter of 2008. (Wameyo A., The establishment of stock exchanges market and its effect on investment).

Nearer home, Africa continues to witness new stock exchanges almost every year as development of capital markets has eventually become an important part of economic reforms. Stock markets have also proved to be one of the fastest channels for attracting foreign capital. The only way to attract these levels of investment is to allow as many players as possible into the investment banking market. Such a bold move will not only make Africa stock exchanges big enough for the global capital but also enable the region to catch up with the fast evolving global financial village. (Mbaru, 2005).

CHALLENGES OF DEVELOPING STOCK EXCHANGE IN AFRICA

Political and economical decisions that were translated into legal framework for the establishment and operation of the stock exchange were rushed in many African countries .therefore the exchange has not been successfully in attracting a large number of other market transactions in addition to the privatized public enterprises. (CMAC Handbook, 2008).

Many Africa's stock exchanges are small, underdeveloped and illiquid. They tend to operate in isolation from other market, have low trading volumes, are sheltered from competition by national regulations and face barriers to capital mobility because of high costs of travel and communications. (Area, 2003). African Stock Exchange tend to be highly concentrated with the best shares being held by local pension funds, banks and insurance firms that do not want to sell because they have few alternative assets to buy with sales proceeds. In addition, the market infrastructure is underdeveloped particularly with regarded to trading, settlement and delivery as manual systems and process dominate their operations.

Bond markets are relatively underdeveloped in Africa's capital markets, yet they have the potential of mobilizing significant amounts of capital. They can also give African Stock Exchange a tremendous boost in turn over as bonds are usually more attractive to investors than stocks. A well integrated and customized financial information service that provides timely and accurate information service individuals and institutions are necessary for the development of bond market (NSE Handbook, 2006).

Stringent eligibility requirement have discouraged local entrepreneurs and indigenous entrepreneurs that wish to raise funds from capital markets. The eligibility requirements as exemplified in the requirements for listing at the NSE have created high barriers to potential entrants to the Stock Exchanges such as the numerous family owned businesses in Africa. Thus, the Stock Exchange tend to operate like closed membership organizations (Area, 2003).

Limited presence of institution investors are constraining equity demand. In addition, lack of an active role the distribution of securities to the public by other Financial Institutions such as venture capital funds, building societies and insurance companies is construing supply of equity.

Creating an efficient regulatory system for securities exchanges is a difficult goal to achieve and maintain. Hence, some Africa Stock Exchanges have limited intuitional capacity to policy and enforce rules. Most of the modern regulatory regimes they have adapted consequently, enforcement actions rare and abuses are not uncommon (Sheehan & Zavala 2007). In addition, investors, particularly minority shareholder, lack confidence in the market as some listed companies continue to operate under poor corporate governance structures. In some stock markets, participants are subject to multiple regulators there by causing regulatory regimes (Area, 2003).

Political uncertainties and economical policies in some African countries have facilitated the decline in confidence and subsequent poor performance of stock markets because of the risk of deteriorations in the business climate. Before, the general election in Kenya in 2002, the NSE experienced decline in market performance due to political and economic policies adopted by the government that led to the withdrawal of donor funding. However, there was renewed confidence in the market evidenced by improved performance in market capitalization and turnover when a new government came into power in 2003.

In Zimbabwe, the Zimbabwe stock exchange was established in 1996.it have been a star performer among the emerging markets stock exchanges particularly towards the end decade (1996 and1997).however, its turnover and market capitalization has declined since 1998, due to the loss of confidence brought about by the present regime's political and economic policies (Sheehan and Zavala, 2007).

Low savings rate in many African countries have constrained demand and supply of equity in stock markets. Poverty was political unrest and diseases have resulted in large portion of the African population living on less than a dollar a day thereby constraining savings.

Most of the new African exchanges apart from Johannesburg, Casablanca and Cairo securities exchanges ,lack attractive and diverse types of offer foreign investors .generally ,there may be only two or three corporations of interest to foreign investors and most of these may either be subsidiaries of major multinational corporations or recently privatized companies. Consequently fund managers choose the safer course and invest in parent companies listed nearer to home (Ibid).

STOCK MARKET IN RWANDA

Africa continues to witness new Stock Exchanges every were, after the 1994 Genocide, Rwanda has made great strides towards making up its economic loss, achieving growth of nearly 6% in 2000 and an average growth of nearly 10% since 1995. (South West review of International business research, 2008). To maintain and accelerate this effort, the Government of Rwanda has spelled out its development goals and has explicitly stated where it wants the country to be by the year 2020 in a policy document entitled vision 2020. One of the major goals is that the country will achieve middle income status this by 2020. In GDP terms, this means moving from its current level of around USD 230 to USD 960 per capital thereby making Rwanda a middle-income country.

A target of USD 400 per capital is planned by 2010.The expected population at the time is to be 13 million and this implies that the actual GDP will increase from USD 1.8 Billion in 2003 to 11.7 billion in 2020. (BNR Report, 2007). As one of the remedies to raise economic development, Rwanda has decided to establish a stock exchange market in order to improve investment.

The creation of a vibrant stock exchange has been accepted as a necessary concomitant to the agenda of the country. The Government of Rwanda has taken measures to expend and reinforce the financial sectors and develop the Rwanda capital market. The Government has furthermore committed itself to putting in place specialized financial institutions and instruments for the mobilization of long term savings by the means of a stock market, Rwanda is the 19th in Africa. (BNR Report, 2007)

The establishment of capital market in Rwanda has been a culmination of continuous government efforts since 2003, the capital market advisory council was established in March 2007 by the Prime Minister's decree of March 2007, CMAC secretariat was established to run the operations of the council (BNR Report, 2007). And to be an appropriate regulatory structure which is required to provide some protection to investors and its regulatory structure which must also nurture an entrepreneurial environment for business to thrive.

The operational structure aim at upholding the integrity of the market through a system that is orderly, fair and transparency. the capital market structure for Rwanda is an over the counter market (OTC), securities market operated as well by the self regulatory organization, capital market advisory council secretariat (CMAC), CMAC initially operates as a regulator and operator of the capital market .it has prepared the initial rules for the operation of OTC market .soon after CMAC will transform itself into the regulator after initiating the operations of the OTC market and hand over the day to day operations of the secondary market operations to a self regulatory private sector market operator (BNR Report on the Implementation of capital market in Rwanda .2007).

Trading Operations in Rwanda

The Capital Market Advisory Council has established an Over the Counter (OTC) trading operations. Rwanda OTC secondary trading shall be conducted through a dual process. Members will trade through an Over the Counter Market where a member will be allowed to buy or sell directly to clients in their offices. Equally members will be allowed to transact with other members either face to face or through the telephone throughout the working hours of the normal working days. In addition, an open outcry trading session will be conducted at the trading floor. During the designated trading floor sessions at the CMAC secretariat, all members must report all their transactions that they conducted from the closure of the previous official trading session up to the time just before the beginning of the next trading session.

Financial system in Rwanda

The financial system of Rwanda is composed of central bank, nine commercial banks namely ;BCR, FINA BANK, BK, ACCESS BANK, COGEBANQUE, ECOBANK, KCB, UBPR, five insurance companies such as SONARWA, SORAS, CORAR, COGEAR, PHONEX INSURANCE, two specialized banks i.e. BRD, BHR, one national pension and provident fund, public medical insurance institutions. There are increased activities of micro –credit institutions, savings and credit cooperative associations (SACCOs), collective investment instruments, Unity trusts, Investment advisory services.

Financial market is included in financial system, where we find the capital market; the capital market is divided into primary and secondary market. The primary market is the market for new issuers or where new capital is raised. It is the market where securities are sold for the first time. At the primary market sale proceeds of the securities offered flow directly from the buyers or investors to the issuers of the securities. These are areas which needs development if the country hopes to have much deeper financial system.

Theoretical Perspectives

The main idea of the behavioral finance models is to discuss the various biases behind judgments and decisions under uncertainty. These biases mainly cover the **Emotional**, **Bounded Reality**, **Social Factors**, as well as **Cognitive Biases**.

The Behavioral Model of Prospect Theory

In 1979, Kahneman and Tversky proposed a theory that defies the expected utility theory, which states that investors calculate their utility rationally on the basis of risk/return of various decisions (Rizzi 2008). Prospect theory, provided by Kahneman and Trevsky of 1979, explains that investors' actual decisions are not necessarily based on rational calculations. As a matter of fact, the prospect theory mainly illustrates how investors behave under uncertainty which violate the theory of expected utility maximization of rational behavior under uncertainty (Shimizu 2007).

Prospect theory

Expected Utility Theory (EUT) and prospect theory are considered as two approaches to decision-making from different perspectives. Prospect theory focuses on subjective decision-making influenced by the investors' value system, whereas EUT concentrates on investors' rational expectations (Filbeck, Hatfield & Horvath, 2005). EUT is the normative model of rational choice and descriptive model of economic behavior, which dominates the analysis of decision making under risk. Nonetheless, this theory is criticized for failing to explain why people are attracted to both insurance and gambling. People tend to under-weigh probable outcomes compared with certain ones and people response differently to the similar situations depending on the context of losses or gains in which they are presented (Kahneman & Tversky, 1979). Prospect theory describes some states of mind affecting an individual's decision-making processes including Regret aversion, Loss aversion and Mental accounting (Waweru et al., 2003).

Related Studies

In this section, the researcher sought to know what other researchers have found about the topic.

Behavior Finance Perspective of Investors

As a result of traditional finance theory appears to play a limited role in understanding this issues such as (1) why do individual investors trade, (2) how do they perform the task, (3) how do they choose their portfolios to conform their conditions, and (4) why do returns vary so quickly even across stocks for reasons other than risk. In the new arena of behavior finance or so-called behavior economic, we could to interpret about individual investors behave in their invest choice more completely. Most of behavioral finance researchers often claimed that the reality results presents no unified theory unlike traditional finance theory appears expected utility maximizations using rational beliefs. Its means those scholars in this field actually postulate whole investors in financial market are rationales; they can't influenced through any factors only maximum profit for themselves.

Most authors show behavior finance perspective on individual investor, such as Deaux and Emswiller (1974), Lenney (1977), Maital et al. (1986), Thaler and Johnson (1990) and Beyer and Bowden (1997). Those authors are to exclaim that individual investor would demonstrate different risk attitude when facing investment alternatives. Later instruction in our research, we called risk perception and risk tolerance of individual investor. Comparing with previously research, current study is to focus on external factors and psychological factors how to affect investor's investment decision and portfolio choice. For instance, Annaert et al. (2005), Wang et al. (2006) indicate the impact of information asymmetric problem on investor behave, this is another subject in behavioral finance field. Most of these researches are pay close attention to behavioral finance, especially in financial products choices (investment) and behave of individual investor invest related.

Risk Perception, Risk Tolerance and Portfolio Choice

Roszkowski (1998) noted that calculating individual investor's level of risk tolerance is a difficult process because risk tolerance is an elusive, ambiguous concept. Many authors have suggested that risk taking is constant across situations, but evidence indicates that, for instance, an individual investor's level of risk tolerance for physical activities is not a suit gauge of risk taking in financial situations (Roszkowski, 1998; Rowland, 1996).

Financial risk tolerance is defined as the maximum amount of uncertainty that someone is willing to accept when making a financial decision. Although the importance of assessing financial risk tolerance is well documented, in practice the assessment process tends to be very difficult due to the subjective nature of risk taking (the risk of investor willing to reveal their risk tolerance) and objective factors such as Grable and Joo (1997), Grable and Lytton (1999), and Grable (2000).

Risk tolerance represents one person's attitude towards taking risk. This indicated is an important concept that has implications for both financial service providers (asset management institution or other financial planner) and consumers (investors). For the latter, risk tolerance is one factor which may determine the appropriate composition of many assets in a portfolio which is optimal and satisfied investors invest preference in terms of risk and return relative to the needs of the individual investors Droms, (1987), Hallahan et al., (2004). There are some empirical evidence showing the impact of risk perception; risk tolerance and socio-economic on portfolio choice, for instance, Carducci and Wong (1998), Grable and Joo (1997), Grable and Lytton (1999), Grable (2000), Hallahan et al., (2003), Hallahan et al., (2004), Frijns et al., (2008), and Veld and Veld-Merkoulova (2008).

In terms of different risk perception or risk tolerance level, individual investor may show different reaction base upon their psychology factor and economic situation, which would lead to heterogeneous portfolio choice for individual investors. For this reason, it is crucial to recognize and attitudinal how individual investors with different risk perceptions and risk tolerance make their invest products choice on investment plan, in particular socio- economic status differentials may make their choice vary and difference.

Investor's Socio-Economic Status and Risk Tolerance

Some researchers have indicated that the validity of widely used demographics as determinants of risk tolerance is noteworthy as the relationship between socio-economic status differences including gender, age, income level, net assets, marital status, educational level and investment decision or portfolio choice. With regard to the financial risk tolerance literatures, there is much interest in the demographic determinants and risk attention (involving three risk types: risk aversion, risk moderate and risk seeking) is particularly focused on age, gender, education level, income level, marital status, the number of dependents and net assets. Specifically, although debate remains on some issues, a range of common findings are generally observed. There are five phenomenons in socio-economic status variables differential and portfolio choice as the following:

First, risk tolerance decreases with age (e.g., Morin and Suarez 1983; Roszkowski, Snelbecker, and Leimberg 1993). Second, females have a lower preference for risk than males (e.g., Roszkowski, Snelbecker, and Leimberg 1993; Grable 2000). Third, risk tolerance increases with education level (e.g., Roszkowski, Snelbecker, and Leimberg 1993; Haliassos and Bertaut 1995). Fourth, risk tolerance increases with income level and net assets (e.g., Cohn et al. 1975; Roszkowski, Snelbecker, and Leimberg 1993; Bernheim, Skinner, and Weinberg 2001). Fifth, single (i.e., unmarried) investors are more risk tolerant than married (e.g., Roszkowski, Snelbecker, and Leimberg 1993).

Age

In the early 1960s Wallach and Kogan (1961) began studying relation ships between risk tolerance and age. Many studies have shown that age interact with financial information and issues differently. To survey the literature, this indicates that younger have different attitudes toward financial decisions than elder (Wallach and Kogan, 1961; McInish, 1982; Morin and Suarez, 1983; Palsson, 1996). The majority of the published research studies examining the relationship between age and risk tolerance have found that risk tolerance decreases with age.

They found that older individuals tended to be less risk tolerant than younger persons. This finding is widely held to be true, both among practitioners and researchers (Bajtelsmit & VanDerhei, 1997; Hawley & Fujii, 1993-1994; Palsson, 1996; Sung & Hanna, 1996a). Although there is evidence to suggest otherwise (Grable & Joo, 1997; Grable & Lytton, 1998; Wang & Hanna, 1997), it is reasonable to assume that a negative relationship exists when testing the association between age and risk tolerance.

The elder is more likely to have low level of risk tolerance; it implies that with age increasing investors have a decreasing preference for investment on risky assets. In addition to, the younger is more percentage to have high level of risk tolerance; it means that younger is less preference for investment on riskless asset than elder (Bakshi and Chen, 2008).

Gender

A study commissioned by a major national brokerage firm found that gender is the third most powerful determinant of investing, after age and income are considered (Bajtelsmit and Bernasek, 1996). Otherwise, in some researches, gender has also been found to be an important differentiating factor in the classification of risk tolerance as females have consistently been shown to have a lower preference for risk than males (Bajtelsmit and Bernasek, 1996; Powell and Ansic, 1997; Grable, 2000). This implies that there is positive relationship between male and risky investment choice and negative relationship between female and riskless choice (Bajtelsmit and Bernasek, 2008).

level is more likely to take more risk tolerance than one with lower education level.

Income Level

Over the years a positive pattern between income and financial risk tolerance has been observed. For example, Cohn, Lewellen, Lease, and Schlarbaum (1975) concluded that relative financial risk tolerance increases with wealth and income. Similar findings have been reported by Cicchetti and Dubin (1994), Friedman (1974), Income and wealth are two related factors that are hypothesized to exert a positive relationship on the preferred level of risk. Alternatively, wealthy people may be more conservative with their money while people with low levels of personal wealth may view risky investments as a form of lottery ticket and be more willing to bear the risk associated with such payoffs. Its means increasing income level of individual investor is associated with increased levels of risk tolerance (Hallahan et al., 2003; Veld and Veld-Merkoulova 2008; Grable, 1999; Grable, 2000). This empirical result is consistent with earlier research (Baker and Haslem, 1995).

This implies that one with higher income level could afford more risk than one with lower income level (means the rich person will get more risk tolerance scores than poor person). For the latter and early research outcome, however, the issue is not clear cut. On the one hand, wealthy individuals can more easily afford to incur the losses resulting from a risky investment and their accumulated wealth may even be a reflection of their preferred level of risk.

Marital Status

Marital status has also been presumed to impact on financial risk tolerance; however, the precise nature of the relationship is not clear. One points claims that unmarried person are more risk tolerant than married individuals because they have less responsibilities than married people, particularly in respect to adopted person and face less social risk than single (that is, potential loss of esteem) when undertaking risky investments (Roszkowski et al., 1993). On the other hand, it has also been suggested that married individuals have greater risk taking propensities because of a greater capacity to absorb unfavorable outcomes than unmarried person (Grable, 1999; Grable, 2000).

Investigation of the investment decisions made by married individuals presents a unique challenge to researchers, as the investment portfolio of the couple may reflect the combined risk preferences of the couple (that so-called family financial invest risk), many studies have shown that marital status interacts with financial information and issues differently (Bernasek and Shwiff, 2001).

Furthermore, marital status is a potentially important demographic that impacts on the preferred level of risk or risk tolerance in the investment process that single investors are more risk tolerance than married investors, although some research has failed to identify any significant relationship between risk tolerance and marital status. Increasing levels of risk tolerance also have been associated with being single are unmarried person (Baker and Haslem, 2008). On the other hand, it has also been suggested that married individuals have greater risk taking propensities because of a greater capacity to absorb unfavorable outcomes.

The empirical research fails to provide any insights as to which of these competing theories may be valid. A number of studies have failed to identify any significant relationship between marital status and financial risk tolerance in individual investors (McInish, 1982; Masters, 1989; Haliassos and Bertaut, 1995). All of these authors show the result in their research that single person could afford risk more than married person, means unmarried person have more risk tolerance scores than married person.

CHAPTER THREE

METHODOLOGY

Research Design

The researcher used a descriptive correlation design. Particularly a descriptive co-relational design used to determine the relationship between investors behavior and development of stock exchange and a descriptive comparative design used to determine significant differences between the rate and factors that influence the rate of stock exchange development.

Research Population

The targeted population for the area under study was Business/corporate, organizations which deal in the local stock market, Ministry of trade and Transport and Rwanda stock exchange (R.S.E). The total target population was 15673 people from whom the researcher obtained the sample for the study.

Sample Size

The sample size was determined by using solven's formula:

n = N/1+N (e) 2

Where n = sample size

N = Size of population

e =level of significance 0.05

Therefore=Population= 15673

$$n = \frac{15673}{1+15673(0.0025)}$$

$$n = \frac{15673}{1+39}$$

$$n = \frac{15673}{40}$$

n= 391

Table 1: Respondents of the study

Respondent type	Sample	Population	Sample Selection
R.S.E	37	624	Purposive Sampling
MINISTRY OF TRADE AND TRANSPORT	94	1592	Purposive sampling
CORPORATE COMPANIES	260	13457	Snow Ball Sampling
Total	**391**	**15673**	

Sampling Procedure

The researcher employed snow ball sampling because the researcher did not know where to locate all investors participating in the stock exchange markets hence one potential investor would direct the researcher to the other investor in the stock exchange markets.

Purposive sampling was used based on the following criteria; only officials from the RSE and Ministry of Trade and Transport, either male or female, only those individuals who are informed about Security exchange markets were involved in the study. This at least involved people who had an experience of two years.

Research Instrument

A questionnaire titled "investors' behavior and development of stock exchange market in some selected companies in Rwanda". The questionnaire was a Likert Scale type with the following options (1-Strongly Disagree, 2-Disagree 3-Undecided, 4-Agree, 5- Strongly agree), for the respondents to insert in the space provided the most appropriate option that suit their opinion.

Structured interviews were conducted with head of the stock exchange. Interviews were used because they provide additional information for triangulation purpose.

Validity and Reliability of the Instrument

Validity was ensured by checking the questionnaire according the variables of study against the research questions. This involved cross examination of the study results in relation to similar studies and the methods used.

On the other hand reliability was achieved by using the following techniques:- Pre-testing of the Questionnaires: The researcher did this by going to the field and administering the questionnaires to 6 potential respondents who did not participate in the final study, this tested the quality of the data content, language and whether the format of the questionnaire suited the purpose of the study.

Data Gathering Procedures

Before the administration of the questionnaires

The researcher started by writing the proposal after the proposal was approved; he went to pre-test the research instruments. The researcher presented an introductory letter from the University outlining the objectives of the study to the Head of the stock exchange for endorsement. The researcher proceeded to individual investors with copies of the endorsed introductory letter seeking permission to carry out the research with the individual investors. After which the researcher went on to collect data using the instruments from the respondents. The researcher selected research assistants who assisted in the data collection, briefed and oriented them in order to be consistent in administering the questionnaires.

During the administration of the questionnaires

The respondents were requested to answer completely and not to leave any part of the questionnaires unswered. The researcher and assistants emphasized retrieval of the questionnaires within five days from the date of distribution.
On retrieval, all returned questionnaires were checked if all were answered.

After the administration of the questionnaires

He did the data analysis when the work of collecting data was done. Finally the researcher submitted the report of the study findings to the college of Higher Degrees for the fulfillment of the award of degree of masters of Business Administration, for examination.

Data Analysis

Frequency tables and percentages distribution were used to determine the profile of respondents. Means and standard deviation were used to determine the factors influencing individual investor behaviour on the Rwanda Stock exchange.

Pearson's correlation co-efficient was used to test for the significant relationships.

Ethical Considerations

The researcher received an introductory letter from the Department of College of Higher Degrees and Research, Kampala International University, stipulating the purpose of investigations. There was concern taken about the welfare of respondents including their mental, physical health and safety, avoiding embarrassments, guilt discomfort and risks to them, in addition the names and any other personal identification of the respondents was kept confidential and made known to them in the beginning of the exercise.

Limitations of the Study

The researcher came up with the following limitations during the study;

Researches and empirical studies in the field of behavioral finance are limited in the emerging and developing markets, especially in the East African Region, including the Rwandan market.

This research is focused on individual investors as the financial institutions, brokerage firms and online trading providers were not included.

Considering the fact that the field of behavioral finance is relatively new, there are no clearly determined and unified conditions that play a significant role in investors' behavior in the market. Due to this fact, some real conditions and biases may be overlooked when conducting this research.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

This chapter presents analyses and interprets the findings of the study. This is done in themes that reflect the study objectives so that justifiable conclusions can be made.

Profile of respondents

This was intended to establish the characteristics of respondents who took part in the study to examine how they influence the study results.

Table 2. Respondents biographic features (n=391)

Sex	**Frequency**	**Percentages (%)**
Female	103	26.3
Male	288	73.7
Age		
21-30	89	22.8
31-40	106	27.1
41-50	104	26.6
50 and above	92	23.5
Education		
Tertiary	214	54.7
Secondary	69	17.6
Primary	51	13.0
Others	57	14.6
Annual income (million francs)		
6-10	53	13.5
11-15	61	15.6
16-20	73	18.7
21-25	64	21.4
26-30	120	30.7

The findings show that 26.3 respondents were female and 73.7% were male. This indicates that women did not actively take part in the stock exchange markets in Rwanda while male took the active role in stock exchange markets. This was attributed to the low level of women owing large business companies that participate in stock exchange market.

From table 2 above, 22.8 respondents were aged between 21 to 30 years, 27.1% were aged 31to 40 years, 26.6% were aged 41 to 50 years and 23.5 respondents were aged 50 years and above. This relatively shows that all age groups were actively involved in the stock exchange markets though those aged between 31 to 40 and 41 to 50 were more active than the rest of the groups.

Basing on the findings in table 2, 54.7 respondents were of tertiary level of education, 17.6 respondents were of secondary level of education, 13.0 respondents were of primary level and 14.6 respondents were of other education status including those who have never been to school. This indicates that only the educated had a better understanding of stock exchange markets hence their high involvement in stock exchange markets than people who were not of high levels education.

From the study findings in table 2 above, 13.5 respondents who participated in stock exchange markets had an annual income of between 6 million to 8 million francs, 15.6 respondents earned between 11 to 15 million Rwandan francs, 18.6 respondents earn between 16 to 20 million francs annulay21.4% earn between 21 to 25 million francs and 30.7 respondents earn 26 to 30 million Rwanda francs annually. This shows that people who earn highly had better opportunities to participate in stock exchange markets than their counter parts who earn low incomes.

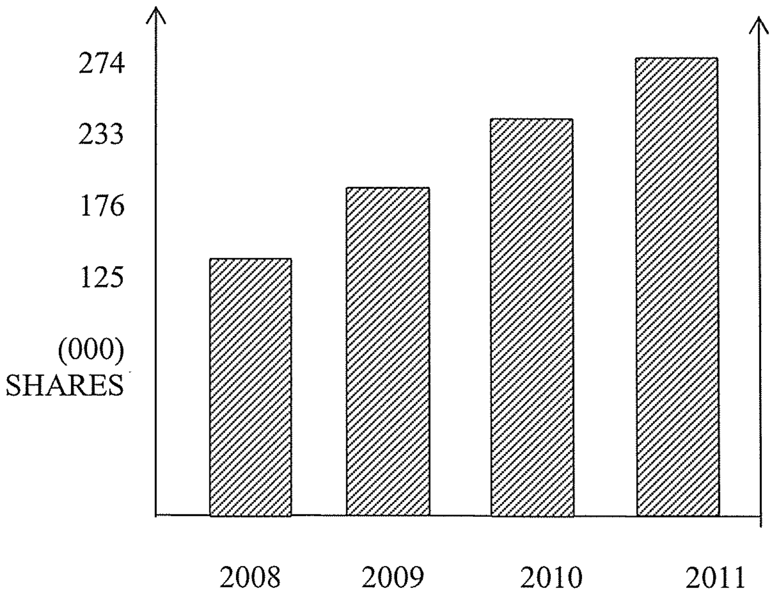
The trend of investors attitude towards stock exchange markets in Rwanda.

This was intended to find out how the trend of stock market investors has been in Rwanda since 2008 to 2011.

Table 3. The trend of investors' attitude towards stock exchange Markets in Rwanda

Year	Shares bought
2008	125(000)
2009	176(000)
2010	233(000)
2011	274(000)

The graph that shows the trend of investors attitude towards stock exchange markets in Rwanda.



From the graph above, results show that over the years the stock exchange markets in Rwanda have been increasing steadily. In 2008, 125000 shares were brought in the stock markets, in 2009, 176000 shares were bought, in 2010; 233000 shares were bought and 2011; 274000 shares were bought. This shows a change in attitude by investors of being motivated to invest in stock markets in Rwanda. If this trend can be maintained the Rwanda stock exchange will be one of the most growing sector in east Africa.

Factors contributing to investors behavior towards stock exchange markets in Rwanda.

This was aimed at finding out the factors that are contributing to the trend in stock exchange markets in Rwanda.

Table 4. Factors contributing to investor's behavior towards Rwanda Stock exchange (n=391).

Responses	SA		A		D		S.D		total	
	F	%	F	%	F	%	F	%	T.F	T%
Unstable stock exchange markets	93	23.7	168	42.9	41	10.5	89	22.8	391	100
Low levels of investment	46	14	75	23	67	20.4	141	42.8	329	100
Historical factors	107	34.6	71	23	93	30	38	12.3	309	100
Investors attitudes and perceptions about Rwanda	154	40.1	87	22.2	103	26.3	47	12.0	391	100
Fear of loses in shares	96	29.3	42	12.8	83	25.3	107	32.6	328	100
The size of Rwanda's economy	53	15.9	71	21.3	81	24.3	129	38.6	334	100

From the study findings, 23.7 respondents show that they strongly agreed that unstable markets are responsible for the trend in the stock exchange markets, 42.9 respondents agreed that unstable stock exchange markets scare away investors, 10.5 respondents disagreed to the view that unstable stock exchange markets were responsible for the low trend of investors in RSE and 22.8 respondents strongly disagreed to the view. This was attributed to the inconsistent share prices which change from time to time.

This puts investors' capital at risk of making losses in case they would wish to sell their shares to other investors where as other disagreed to this citing a persistent increase in the stock market shares which is an indication of stability. From the study results, 14% of respondents strongly agreed that the low levels of investment in Rwanda's economy by both the private and public authorities influences investors in the stock exchange market behavior and attitude 23 respondents agreed that low investment in Rwanda's economy influenced the trend in stock exchange, 20.4 respondents disagreed to the view and 42.8 respondents strongly disagree that low levels of investment was responsible for stock exchange investors attitude to Rwanda stock exchange markets. This was based on the fact that Rwanda's economy was steadily growing with a high rate of investment which should be attracting stock exchange investors to the country.

From the table 6, 34.6 respondents strongly agree historical factors influence the stock exchange investors in Rwanda, 23 respondents agreed that historical factors influence investors attitudes towards Rwanda stock exchange markets, 30 respondents disagreed to the fact that historical factors affect investors behavior in Rwanda stock exchange and 12.3 respondents strongly disagreed to the view.

Investors fear to invest their capital in a country where ethnic differences exist hence making it proves to conflicts that scare away investments, when people make a reflection of the genocide then they fear to invest in countries where such situations are likely to exist.

Investors' attitudes and perceptions about Rwanda is another factor expected to contribute to investors behavior in the Rwanda stock exchange markets, 40.1 respondents strongly agreed to this factor, 22.2 respondents agreed, 26.3 respondents disagreed while 12 respondents strongly disagreed to the factors. This was attributed to the fact that Rwanda as a country is secure for investment and its economy is growing which attracts more investment into the country. However, Rwanda being a young economy many people doubt its stability and are uncertain about the future of the economy. They also view the profit margin on the shares bought on stock markets in Rwanda being low not attractive for investment.

The fear of losses in shares bought in the Rwanda stock markets is another factor influencing investors attitude towards the Rwanda stock exchange markets 29.3 respondents strongly agreed to the view, 12.8 respondents agreed, 25.3 respondents disagree and 32.6 respondents strongly disagree to the fact. This was attributed to the view that due to the inconsistences in the market exchange, investors fear to loose their money in shares which may easily loose value, investors wants to buy shares whose value can continue to increase hence if the fear of loss comes in it scares the investors from putting their capital into shares investors from putting their capital into shares.

From the table, 15.9 respondents strongly agreed that the size of Rwanda's economy behaviors towards the stock exchange markets, 21.3 respondents disagreed to the view, 24.3 respondents disagreed and 38.6 respondents strongly disagreed.

The size of the economy attracts more companies to invest in the country hence Rwanda being a small economy many companies have not put their shares on the stock exchange markets hence narrowing down the markets which do not attract investors on the contrary other prefer as invest in small economies due to the fact that shares are cheap to but and produce large profits compared to the large economies which sell shares expensively.

Relationship between investor's behavior and development of stock exchange markets. This was intended to find out the relationship between investors behaviors and the development of stock exchange markets in Rwanda. This would create a platform on which strategic measures can be formulated to improve the development of stock exchange markets in Rwanda.

Table 5: Relationship between investors behavior and development of Stock exchange markets in Rwanda. (n=391)

Subject	Investors behavior (x)	Stock exchange development (y)
1	76	28
2	109	41
3	83	31
4	64	51
5	93	49
6	88	38
Total	**513**	**238**

$\Sigma x = 513$

$\Sigma y = 238$

$\overline{X} = 85.5$

$\overline{Y} = 39.7$

$$r = \frac{\Sigma (X - \overline{X})(Y - \overline{Y})}{\sqrt{(X - \overline{X})^2 (\Sigma Y - \overline{Y})^2}}$$

$$\frac{(513-85.5)\,(238-39.7)}{\sqrt{(4.275)^2(198.3)^2}}$$

$$\frac{(427.5)\,(198.3)}{\sqrt{(4.275)^2(198.3)^2}}$$

$$\frac{84773.25}{\sqrt{7186503916}}$$

$$\frac{84773.25}{84773.25}$$

$$r = 1$$

It means that there is a strong relationship between investor's behavior and development of stock exchange market in Rwanda.

From the study results, 28.4 of the respondents showed that negative investors behavior retards stock exchange markets development in Rwanda. Poor attitude towards the stock markets, failure to invest in the Rwandese economy and negative perceptions made the Rwanda as a country. These have made the stock market fail to take off due to the low level of investment in the sector.

This has made the share prices to remain low hence poor development of the stock markets.

Study findings show that 40.7 of the respondents associate development of stock exchange markets in Rwanda to the positive attitudes and perception of investors towards the stock markets. The willingness of the investors and companies to participate in the stock markets has boosted the stock market development in Rwanda. The high influex of investors In the RSE is an indication of development in the stock exchange markets, increase in shares and shares prices hence making it competitive and profitable for the investors.

Basing on the study findings, 31 of the respondents show that there is no relationship between investors' behavior and development of stock exchange markets. It was deemed that other factors rather than investors' behavior effect development of stock markets including economic bureaucracies, political factors and the development of investment sectors and the size of the economy of the country.

Measures that can be taken to enhance the development of stock exchange markets. This was intended to find out measures that can be taken to enhance the development of stock exchange markets in Rwanda so as to attract as many investors as possible.

Table 6. Measures that can be taken to enhance the development of Stock exchange market in Rwanda (n=391).

responses	Frequency	Percentages (%)
Advertisement	105	30.6
E-market	94	27.4
Government investment	82	24
Economy control	79	23
Provision of securities	73	21

Study findings show that, Advertisement should be carried out by the Rwanda stock exchange so as to market the stock markets. This was ascertained by 30.6 respondents. This will increase the chances of stock markets being known by the investors so that they can purpose. Different media bill board, radio stations, televisions stations and News papers.

This will help many people to get informed about the shares and their prices and the companies that are selling.

Based on study finding, 27.4 respondents showed that to enhanced the development of stock markets, electronic marketing (E-marketing) of stock exchange markets should be encouraged by the Rwanda securities exchange. This will help international investors to procure shares online without first coming to Rwanda companies should be advised to open up websites on which they can market their stock and investors.

From the study finding, 24 respondents show that there is need for government investment into the stock exchange markets. This will help to attract private investors into the sector. This removes the fear of loosing the capital investment into the stock markets as the government can be in position to compensate investors in case of companies running bankrupt.

Economy control is another strategic measure that can be taken to enhance development of stock exchange markets in Rwanda. 23 respondents indicated that the government needs to control inflation, market prices so that the economy can be stabilized hence attracting investors.
Incentives should be put in place to attract stock investors most especially in public parastals.

Study finding show that 21 respondents advocated for improving of security in Rwanda. This will attract investors as they are sure of security for their capital investments hence developing the stock exchange markets. This can be emphasized through ethnic harmony, protection of foreign investors and routine market control by government.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of findings, the conclusions that have been drawn and the recommendations for the study.

Summary of findings

In line with objective one of the study which was intended to find out the rate at which the Rwanda stock exchange markets were growing. The study was able to establish that the stock exchange markets were growing at an increasing rate. This was manifested with the high rate of companies registering with the RSE and a high influx of both local and international investors buying the shares within the stock exchange markets. Stock exchange markets showed increased investment over the years within an indication of growth within the sector.

According to objective two of the study which was intended to establish the factors that influence investor's behavior towards the Rwanda stock exchange markets. The study identified a number of factors including the size of the Rwanda's economy, unstable stock market prices, fear of capital losses, low levels of government involvement in the sector and historical factors. All these affected investor's attitudes and perceptions about the stock exchange markets in Rwanda.

These factors scared away investors hence limiting the rate of development of the stock exchange markets. The inconsistencies within the stock the stock markets influence how investors come to buy shares expensively and sell them cheaply makes investors have a negative behavior towards the stock exchange markets in Rwanda. These results bear a reflection of the BNR report which indicates that the Government of Rwanda has taken measures to expend and reinforce the financial sectors and develop the Rwanda capital market. The Government has furthermore committed itself to putting in place specialized financial institutions and instruments for the mobilization of long term savings by the means of a stock market, Rwanda is the 19th in Africa.

According to objective three of the study which intended to find out the relationship between investors behavior and development of stock exchange markets in Rwanda. It was evident that investors positive or negative behaviors influenced the level of development of the Rwanda stock exchange markets. Negative behavior meant that investors have a poor attitude and perceptions about investing in the stock exchange markets. These results are in agreement with those of Ciccheti & Dubin (1994) who argued that alternatively, wealthy people may be more conservative with their money while people with low levels of personal wealth may view risky investments as a form of lottery ticket and be more willing to bear the risk associated with such payoffs.

This limits the companies that participate in the markets and the shares that are bought. This retards the rate at which the sector would be growing at if investors were entering the markets in large numbers. These results concur with those of Area (2003) who contends that, stringent eligibility requirement have discouraged local entrepreneurs and indigenous entrepreneurs that wish to raise funds from capital markets. The eligibility requirements as exemplified in the requirements for listing at the NSE have created high barriers to potential entrants to the Stock Exchanges such as the numerous family owned businesses in Africa. Thus, the Stock Exchange tend to operate like closed membership organizations.

Hence the government needs to market the sector participating in stock markets through buying shares, opening up opportunities for people to buy shares in government parastatals, providing security for the investors both political security and economic security for their capital investments.

Electronic marketing and advertising of stock markets should be emphasized so that transactions can be performed online. This will make RSE look advanced and will attract more of international investors hence boosting the stock exchange markets.

Conclusions

The study was able to draw the following conclusions;

Stock exchange markets were growing at an increasing rate with the involvement of both local and international companies and investors participating in the stock exchange markets. Investors from South Africa, Uganda Kenya, Tanzania and democratic Republic of Congo are among the people that were participating in the stock exchange markets in Rwanda.

There were many factors that influenced investor's behavior towards the stock exchange markets in Rwanda. These negatively affected the attitude and perception of investors hence retarding the rate of growth of the sector. The most prominent of all factors was the unstable stock exchange markets due to fragility of the Rwanda's economy. This scares away investors due to fear of loss of their capital.

There is a strong relationship between investors' behaviors and the development of stock exchange markets. This means that a negative behavior from the investors would cause a slump in the shares sold or bought on the markets and vice versa.

There is need for strategic interventions to be put in place to encourage investors to come into the Rwanda stock exchange markets. This will necessitate collaboration between the corporate companies, the government agencies and private investors. This will boost the level of investment in the sector hence attracting more international investors into the sector.

Recommendations

From the study results, the following recommendations have been drawn;

The government should in partnership with the ministry of trade and investment and ministry of finance endeavor to gear their efforts towards monetary control so that the economy can develop hence attract more investors into the stock exchange markets.

There s need for advertising the stock markets intensively using local media and the internet as well as allowing selling and buying of shares online. This will allow easy transactions and it will make the whole world understand the potential investment opportunities in Rwanda. Bureaucracies that restrict the participation of foreign companies into the stock exchange markets should be eliminated so that more international companies can easily register with the security exchange Board. This will increase on the size of stocks available which will make the sector competitive.

Security should be guaranteed by the government so that investors can view the country being stable. This will attract more investors as no one can risk investing in politically fragile environment. Boarders should be keenly controlled to ensure security hence attracting investment.

Areas for further research.

i. The role of government in the development of stock exchange markets.

ii. Challenges to the development of stock exchange markets in small economies

iii. Factors influencing share prices on the stock exchange markets in Rwanda.

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BNR Report on the Implementation of capital market in Rwanda .2007

Appendix 1 - Transmittal Letter

KAMPALA
INTERNATIONAL
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EXPLORING THE HEIGHTS

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OFFICE OF THE COORDINATOR, BUSINESS AND MANAGEMENT
COLLEGE OF HIGHER DEGREES AND RESEARCH (CHDR)

RE: REQUEST FOR TUYIZERE M. FABRICE MBA/19678/111/DU
TO CONDUCT RESEARCH IN YOUR ORGANIZATION

The above mentioned is a bonafide student of Kampala International University pursuing a Masters of Business Administration (Finance and Accounting)

He is currently conducting a field research of which the title is **"Investors Behaviour and Development of Stock Exchange Market in some Selected Companies in Rwanda."**

Your organization has been identified as a valuable source of information pertaining to his research project. The purpose of this letter is to request you to avail him with the pertinent information he may need.

Any information shared with him from your organization shall be treated with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,

Mr. Malinga Ramadhan
Coordinator,
Business and Management, (CHDR)

Appendix II – Appointment letter

Capital Market Authority

12/03/2012

REF/CMA/Mar/.361./2012

MR.TUYIZERE M. Fabrice
Tel: 0788401162

Dear TUYIZERE,

RE: CONDUCTING RESEARCH IN CMA

Reference is made to your letter dated 7th **March, 2012** requesting to conduct a research study in *CMA on the topic " INVESTORS BEHAVIOR AND DEVELOPMENT OF STOCK EXCHANGE MARKET IN SOME SELECTED COMPANIES IN RWANDA".*

We are pleased to inform you that your request has been granted and can conduct your research any time from the day this letter is signed.

I wish you a fruitful research.

Yours Sincerely,
CAPITAL MARKET AUTHORITY

CAPITAL MARKET AUTHORITY

For Robert MATHU
EXECUTIVE DIRECT

ECOBANK Building, 5th Floor, Avenue de la Paix, P O Box 6136 Kigali Rwanda
Telephone: +250 500332/5, E-mail: info@cma.rw
Website: www.cmac.org.rw

Appendix III - Informed Consent

I am giving my consent to be part of the research study of Mr. **Tuyizere M. Fabrice** that will focus on INVESTORS BEHAVIOR AND DEVELOPMENT OF STOCK EXCHANGE MARKET IN SOME SELECTED COMPANIES IN RWANDA. I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation any time.

I have been informed that the research is voluntary and that the results will be given to me if I ask for it.

Initials: ______________________________

Date________________________________

Appendix IV - Research Instrument

1. QUESTIONNAIRE

Dear Sir/ Madam

I am a candidate for Master of Business Administration at Kampala International University and currently pursuing a Thesis entitled **INVESTORS BEHAVIOUR AND DEVELOPMENT OF STOCK EXCHANGE MARKET IN SOME SELECTED COMPANIES IN RWANDA**. In view of this empirical investigation, may I request you to be part of this study by answering the questionnaires. Rest assured that the information that you provide shall be kept with utmost confidentiality and will be used for academic purposes only.

As you answer the questionnaire, be reminded to respond to the items in the questionnaire thus not leave any item unanswered. Further, may I retrieve the filled out questionnaire with in 5 days from the date of distribution.

Thank you very much in advance

Yours faithfully

Mr. Tuyizere M. Fabrice

FACE SHEET

Code # ______________ Date Received by Respondent ________________________

PART 1: RESPONDENT'S PROFILE

Gender ____________________ Date ______________________________

Age _____________________

Education _____________________

Annual income _____________________

Direction 1: Please write your rating on the space before each option which corresponds to your best choice in terms of level of motivation. Kindly use the scoring system below:

Score	**response Mode**	**Description**	**Interpretation**
4	Strongly Agree	You agree with no doubt at all	Very satisfactory
3	Agree	You agree with some doubt	Satisfactory
2	Disagree	you disagree with some doubt	Fair
1	Strongly Disagree	You disagree with no doubt at all	Poor

PART 2: TREND OF INVESTORS PARTICIPATION IN STOCK EXCHANGE MARKETS.

FACTORS CONTRIBUTING TO INVESTORS BEHAVIOURS TOWARDS STOCK EXCHANGE MARKETS.

______1. Unstable stock exchange markets is responsible for investors behavior.

______2. Low levels of investment in Rwanda influence investor's behavior in stock exchange.

______ 3. Historical factors influence investor's behaviours towards stock exchange.

______4. Investor's perceptions and attitudes towards Rwanda as a country are responsible for their behavior towards stock exchange.

______5. Fear of losses in shares influence investors' decisions towards stock exchange.

______ 6. The size of Rwanda's economy influence investors behavior towards stock exchange.

PART 3: RATE OF STOCK EXCHANGE DEVELOPMENT

RELATIONSHIP BETWEEN INVESTORS BEHAVIOUR AND STOCK EXCHANGE DEVELOPMENT.

______ 7. Investors attitude and perceptions have hindered the development of stock exchange.

______ 8. Low levels of investment have negatively affected stock exchange development.

_______9. The political environment has negatively affected the rate of stock exchange development.

______ 10. Bureaucraties have retarded stock exchange development.

______ 11. Investors business nature has affected stock exchange development.

KEY INFORMANT INTERVIEW GUIDE FOR RWANDA STOCK EXCHANGE OFFICIALS

1. How do you see the trend of stock exchange markets in Rwanda?

....

3. What could be factors contributing to investors' behavior towards stock exchange markets?

....

4. How have these factors affected the development of stock exchange markets?

....

4. How has been the rate of stock exchange markets development?

....

5. Who takes control of Rwanda stock exchange markets?

....

6. Do you find any relationship between stock exchange development and investors behaviour?

....

7. What do you think can be done to ensure that stock exchange market is well developed in Rwanda?

....

Appendix v: RESEARCHER'S CURRICULUM VITAE

To document the details of the researcher, his competency in writing a research and to recognize his efforts and qualifications, this part of the research report is thus meant.

Personal Profile

Name: **Tuyizere M.Fabrice**

Gender: **male**

Nationality: **RWANDAN**

Educational Background

Master of Business Administration (K.I.U) (2012)

Bachelor of Business Administration (K.I.U) (2010)

M.S.K (Minor Seminary of Kabgayi) (2007)

K.P.S (Kacyiru Primary School) (2000)

Work Experiences

2 years in JNG company as a store keeper.