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Highlighting the Bottleneck of Investors` Insight, Investment Strategies and Financial Markets In Zimbabwe During The Multi-Currency Era

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Abstract: *In developing economies such as Zimbabwe, there is a growing sophistication of the financial markets both during the local era and multi-currency era such that the population is usually overtaken by events. This is mainly due to oneness regionally, continentally and globally. The trend in new products and financial services through investment strategies has widened. Notwithstanding this growing momentum, the sector also witnessed some evident stresses and closure of some financial institutions, for example, 11 banks closed up between 2011 and 2015. It is on this background that bottlenecks in investors` insight, effective investment strategies and stressing financial market were highlighted in this research. The quantitative research methodology was carried out through stratified and convenience sampling. Research instruments such as questionnaires and interviews were applied in the market. The major finding was that the majority of the investors were ignorant about the investment strategies. Recommendations were narrowed to Commercial banks and Investors only.*

Definition of Key Terms

- ***Investment strategy-****.a set of rules, behaviors or procedures, designed to guide an investor's selection of an investment portfolio.*
- ***Financial institution-*** *institution which collects funds from the public and places them in financial assets such as deposits, loans and bonds rather than tangible property.*
- ***Portfolio-*** *collection of financial securities*
- ***Investment -*** *is putting money into an asset with the expectation of capital appreciation, dividends, and/or interest earnings.*

I. Introduction

Background of the Study

The Zimbabwe financial system has undergone huge transformation since its liberalization during the Economic Structural Adjustment Programme (ESAP). The vibrant entrants of indigenous financial institutions such as Tetrad Securities, Trust Bank, Century Holdings, just to mention a few led to huge debates that the sector was overbanked by Zimbabwean standards. The population benefited with more tailor made financial products and services as cut throat competition intensified. Better-still, the Zimbabwe Stock Exchange (ZSE) became a hive of activity as evidenced with significant buoyancies, huge trading volumes and effective positive yields. However, as both micro and macroeconomic fundamentals deteriorated from 2000 to 2008, the financial sector shrank significantly in terms of business.

With the inception of the multi-currency era in February 2009, the ZSE crashed but still investment was aligned to strategic counters such as blue chips such as Delta and growth counters such as Fidelity Holdings. Some investors put monies in the markets as they capitalized on returns such as dividends and capital gains whilst the majority was reluctant to deposit funds in formal banking channels.

1.1 Statement of the Problem

Mixed information to investors has caused arrogance in knowing about investment, markets and investment management process. The population hears the investment terms which they do not understand on television, radio and even publications such as newspapers. It is on this background that the researcher wishes to highlight the bottleneck of investors, investment strategies and financial markets in Zimbabwe.

1.2 Research Objectives

The main objective of this study is:

- To ascertain the bottleneck of investors, investment strategies and financial markets in Zimbabwe (2009 – 2014).

The Secondary objectives are:

- To determine the various markets that the financial institutions can invest in.
- To find out the nature of the portfolios that the various investors are holding.

1.3 Research Questions

The research was undertaken to answer the following questions:

a) What investment strategies are being employed under the multiple currency system?
b) What are the types of financial markets in Zimbabwe?
c) To what extent is the portfolio management process applicable by Zimbabwean investors?

II. Related Literature Review

The researchers reviewed several literatures from established authors and authorities in the fields as follows:

1.4 Evaluation of Investment Strategies

Wortche and Gerhard (2010), defines an investment strategy as a set of rules, behaviors or procedures, designed to guide an investor's selection of an investment portfolio. These are often described as a tradeoff between risk and return: some investors will prefer to maximize expected returns by investing in risky assets, others will prefer to minimize risk, but most will select a strategy somewhere in between. Surveys show that investors do not believe this, and they expect to have low risk and high return. As a result, they often end up with a "buy-high, sell-low" strategy.

Investment strategies are employed by investors who try to strike a balance between maximizing their profits from their portfolio and risk (Fabozzi ,2011). While passive strategies are often used to minimize transaction costs, active strategies such as market timing are an attempt to maximize returns.

Fabozzi (2011) considers that one of the better-known investment strategies is buy and hold. Buy and hold is a long term investment strategy, based on the concept that in the long run equity markets give a good rate of return despite periods of volatility or decline. A purely passive variant of this strategy is indexing, where an investor buys a small proportion of all the shares in a market index such as the S&P 500, or more likely, in a mutual fund called an index fund or an exchange-traded fund (ETF).

The investment strategies employed by investors;

1.4.1 Buy and Hold Strategy

Zagst (2010) argues that buy and hold strategy involves buying company shares or funds and hold them forever. Zagst(2010) further explains it as a long term investment strategy, based on the concept that in the long run, equity markets will give a good rate of return. The buy and hold strategy is a passive investment technique in which shareholders continue to hold onto their stocks, regardless of market conditions (Fabozzi ,2011).

Rudi (2010) explains the topic of buy and hold, as it applies to the stock market as follows:

“It's impossible to consistently achieve above average returns, on a risk-adjusted basis, according to the efficient market hypothesis (EMH). Investors have access to information that will fairly value a security at all times. Therefore, it is pointless to make decisions that might result in the active trading of a security”.

Investors that believe in the above statement would have no reason to actively trade the stocks in their portfolio. Rudi (2010) supported Zagst’s idea that the buy and hold technique is a long-term investment strategy. Rudi (2010) further on explains that if the market went down in the near-term, that is an acceptable outcome and the longer-term trend should be a positive one.

Followers of this strategy also believe it is very efficient in terms of fees and commissions. At the extreme, stocks are purchased and only sold when money is needed by the investor, thereby minimizing brokerage commissions. Rudi (2010) further explains the advantages and disadvantages of buy and hold strategy as follows:

Advantages

- **Ease of Implementation**: since the technique involves the one-time selection and purchase of stocks, Rudi considers it an easy strategy to adopt. Once the stock portfolio is assembled, there is no need to monitor prices over time, or worry about short-term market fluctuations.
- **Eliminates Timing Decisions**: some investors try to "time the market," attempting to predict when a bear market has bottomed out, or a bull market has run its course. Buying and holding stocks eliminates the possibility of making a series of poor timing decisions.
- **Efficiency**: sales commissions / brokerage fees are lower, since the total number of transactions will be minimized.
- **Income Taxes**: long term capital gains are taxed at a lower rate than short-term capital gains.

Disadvantages

- **Unlimited Losses**: since the technique calls for holding onto stocks regardless of price signals or news, there is no limit to possible losses. Fabozzi (2011) in support of Rudi considers the following example, despite warnings that a company may be on the verge of bankruptcy or facing a financial crisis, the investor would continue to own the shares of stock until they were worthless; thereby losing the entire investment.
- **Risk Tolerance**: during severe market downturns, the investor may eventually panic and sell all their shares of stock. Investors need to have high risk tolerance scores to avoid "buying high, and selling low."

1.4.2 Value Investment Strategy

According to Avadhani (2010), the value investing strategy looks at the intrinsic value of a company and value investors seek stocks of companies that they believed are undervalued. Heck (2006) elaborated that value investing is about finding stocks that the market has not correctly priced, hence, a stock that is worth more than is reflected in the current price.

Value Investor

Avadhani (2010) talks of the value investor, perhaps more than any other type of investor, is more concerned with the business and its fundamentals than other influences on the stock price. Fundamentals, such as earnings growth, dividends, cash flow, and book value are more important than market factors on the stock price. Value investors are also buy and hold investors who are with a company for the long term according to Heck's idea.

If the fundamentals are sound, but the stock price is below its obvious value, the value investor knows this is a likely investment candidate. The market has incorrectly valued the stock. When the market corrects that mistake, the stock price should experience a nice rise.

1.4.3 Growth Investment Strategy

Jason (2012) looks at the growth potential of a company and when a company that expected earnings growth that is higher than companies in the same industry or the market as a whole, it will attract the growth investors who are seeking to maximize their capital gain. According to Zagst (2010) ,those who follow this style, known as growth investors, invest in companies that exhibit signs of above-average growth, even if the share price appears expensive in terms of metrics such as price-to-earnings or price-to-book ratios. In typical usage, the term "growth investing" contrasts with the strategy known as value investing (Avadhani, 2010).

1.4.3 Dollar Cost Averaging Strategy

According to Zagst (2010), the dollar cost averaging strategy is aimed at reducing the risk of incurring substantial losses resulted when the entire principal sum is invested just before the market falls. Zagst (2010) further alluded that the technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price more shares are purchased when prices are low, and fewer shares are bought when prices are high. Eventually, the average cost per share of the security will become smaller and smaller (Jason, 2012). Dollar-cost averaging lessens the risk of investing a large amount in a single investment at the wrong time.

1.5 Types of Financial Markets in Developing Economies

Brealey (2004) defines financial markets as markets in which financial assets such as shares and bonds can be bought or sold. In economics, Bishop and Matthew (2004), described the term market as the aggregate of possible buyers and sellers of a certain good or service and the transactions between them.

1.5.1 Capital Market

Brealey (2004), defined a capital market as one in which individuals and institutions trade financial securities in long term. Brealey (2004) elaborated those organizations and institutions in the public and private sectors also often sell securities on the capital markets in order to raise funds. Akrani (2010) added that capital market is composed of both the primary and secondary markets. It comprises of equity and debt issued by Old Mutual ,National Social Security Authority, National Railways of Zimbabwe, Mining Industry Pension Fund. The securities are for long term and used for raising funds from investors (Akrani, 2010).

i. Equity Market

Stock markets allow investors to buy and sell shares in publicly traded companies. Bodie (1999) defines equity market as one that consists of common stock and preferred stock. Collins (2001) says that buyers are connected from their offices or physical building through real time and electronically system in the buying and selling of their investment. This has a problem of awarding dividends at the end of a stipulated time. They are one of the most vital areas of a market economy as they provide companies with access to capital and investors with a slice of ownership in the company and the potential of gains based on the company's future performance (Rogoff, 2010).

ii. Bond Market

Schmidt, Tay and Sharon (2013) defined a bond as a debt investment in which an investor loans money to an entity (corporate or governmental), which borrows the funds for a defined period of time at a fixed interest rate. Schmidt et al (2013) alluded that bonds are used by companies, municipalities, states and foreign governments to finance a variety of projects and activities. Bonds can be bought and sold by investors on credit markets around the world. Sharon (2013), describe this market as alternatively referred to as the debt, credit or fixed-income market. It is much larger in nominal terms that the world's stock markets. The main categories of bonds are corporate bonds, municipal bonds, and Treasury bonds, notes and bills, which are collectively referred to as simply "Treasuries'',(Yago and Glenn , 1999).

1.5.2 Money Market

The money market is a segment of the financial market in which financial instruments with high liquidity and very short maturities are traded (Bagehot, 2010). Akrani (2010) adds that money market has short-term, marketable and low risk characteristics and is used by participants as a means for borrowing and lending in the short term, from several days to just under a year. Money market securities consist of negotiable certificates of deposit (CDs), bankers' acceptances, Treasury bills, commercial paper and repurchase agreements (repos). Bagehot (2010) further says that money market investments are also called cash investments because of their short maturities. Another scholar , Thygerson (1993) has the idea that money market is used by a wide array of participants, from a company raising money by selling commercial paper into the market to an investor purchasing CDs as a safe place to park money in the short term. Furthermore, money market is typically seen as a safe place to put money due to the highly liquid nature of the securities and short maturities. Because they are extremely conservative, money market securities offer significantly lower returns than most other securities (Thygerson,1993). However, Scutaru and Cornelia (2010) argued that there are risks in the money market that any investor needs to be aware of, including the risk of default on securities such as commercial paper.

1.5.3 Derivatives Markets

Michael, D (2011) defines derivative as a contract, but in this case the contract price is determined by the market price of the underlying / core asset. The derivatives market adds yet another layer of complexity and is, therefore, not ideal for inexperienced traders looking to speculate. However, Mehra (1997) added that derivatives can be used quite effectively as part of a risk management program. Examples of common derivatives are forwards, futures, options, swaps and contracts-for-difference (CFDs).

1.5.4 Primary Markets vs. Secondary Markets.

Geoffrey (2008) undertook a study on the primary and secondary market which gives information on the various aspects of the capital market trading. Both the primary market and secondary market are two types of capital market depending on the issuance of securities. Geoffrey (2008) defines primary market as a market where trading of newly issued securities is done. David (2012) say corporations, governments and companies issue securities like stocks and bonds when they need to raise capital while investors can purchase the stocks.

Árvai (2008) further defines the secondary market as where the bulk of exchange trading occurs each day, hence primary markets can see increased volatility over secondary markets because it is difficult to accurately gauge investor demand for a new security until several days of trading have occurred. According to David (2012), the primary market prices are often set beforehand, whereas in the secondary market only basic forces like supply and demand determine the price of the security.

III. Research Methodology

The research methodology is adopted in our earlier research paper without modifications (Magadi and Harinangoni, 2015). It is detailed as follows:

1.6 Quantitative Approach

The research used the quantitative research design. The subjects were narrowed to Harare only since it is the capital city where most of the financial institutions are headquartered.

1.6.1 Target Population

The target population consisted of banks, pension funds, insurance, asset managers, regulatory authorities and individual investors. Wallen (1991) postulate that a population is any group of individuals that have one or more characteristics in common that might be critical to the researcher .In this study the researchers were also concerned about secondary data, which were the published statements of the different financial institutions under study.

1.6.2 Sampling

These five groups of financial institutions were selected and 20 individual investors as a sample. Firstly, we used convenience sampling to select local owned commercial banks (indigenous banks) and other financial institutions. Local oriented institutions were selected deliberately for convenience's sake. The local institutions were selected because it was cost effective to collect data since all these have their head offices in Harare and decisions are centralized at local head offices. Furthermore, access to data was easy since with foreign owned financial institutions, it would have been difficult to collect the data from overseas head offices.

Secondly, the five groups of financial institutions (banks, pension funds, insurance, asset managers and regulatory authorities) were further grouped into strata using stratified sampling.

Stratified sampling method was then used in selecting the sample used in this research study. The objective was to ensure a good degree of homogeneity among data drawn from different strata; particularly, with elements in the population pursuing investments business or operations of diverse nature.

A stratified random sampling technique was used in drawing up samples under the different categories of investment areas. The study focused on the banks, pension funds, individual investors, insurance, asset managers and regulatory authorities selected as follows:

Table 1.1 Sample Targeted Under Field Work

Commercial banks	Pension funds	Investors	Insurance Companies	Asset Managers	Regulatory institutions
CBZ	NSSA	Individuals (20)	Zimnat insurance	AfrAsia	RBZ(central bank)
ZB	FMPF		Nicoz Diamond	ZB	Ministry of Finance
FBC	MPF		Eagle Insurance	Datvest	Securities commission
AfrAsia	NRZ Pension fund		Alliance Insurance Company	Zimnat Asset Management	Zimbabwe Stock Exchange

Source: Survey Data (2014)

The four groups were further subdivided into four of each except for regulatory institutions which were three only. Thirdly, the bank personnel were chosen purposively to represent the institutions and supply information required. This was because the researchers had the idea and knowledge of the managers and analysts thereby practicing purposive or judgmental sampling.

Finally, individual investors were conveniently selected as they enter the financial institutions for their business. The researchers would visit these financial institutions and interviewed those who enter until they reached a total of twenty (20).

The research instruments applied under this study were questionnaires and interviews.

IV. Research Findings, Analysis And Discussion

In this section, the researcher presents the data using graphs and tables. The analysis is then made leading to an interpretation of the obtained results using statistical tools to establish trends, patterns and relations leading to conclusions and recommendations.

The respondents were selected from the general population of Harare using the criteria for qualification as respondents being that they were working from different financial institutions. From the total number of 75 questionnaires that was sent out, 60 were successfully collected and 15 in-depth interviews were available for analysis. This makes an approximate response rate of 80%.

1.7 Demographic data of respondents

1.7.1 Age of the respondents

Table 1.1 Ages of Respondents

Age (years)	**Number of respondents**	**Percentage**
Less than 20	0	-
21-30	12	20
31-40	25	42
41-50	15	25
51-60	7	12
Above 60	1	1
Total	60	100

Source: Survey Data 2014

The questionnaire had provision for all ages, but they were no respondents below 20years. There were 12 respondents from the age group of 21-30years that is 20% of the population. There was 1 respondent who was above 60 years and the middle aged 31-40 were 42%.

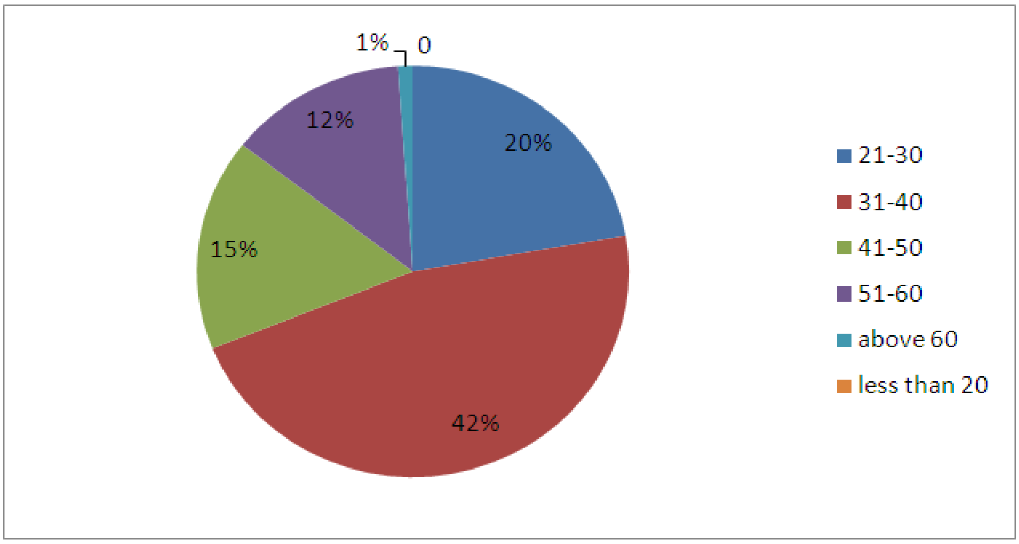

Fig 1.1 Age of respondents

Source: Survey Data, 2014

The age group of 21-30 years is the adventurous age where people have many issues to spend on in life. They still have more to dispose for future and are brave to risk due to lake of experience. 51-60 years have life experiences so are still waiting to see this economic health therefore are not confident with the Zimbabwean economic situation. Less than 20years is still school going age mostly tertiary education.

1.7.2 Respondents by Gender

The figure 4.1.2 shows that 48% of our respondents were male, whilst 52% were female. Therefore, this study revealed that women largely dominate the research, mainly because women are more involved in office work than men and also the change of democracy in reducing gender bias giving women equal opportunities.

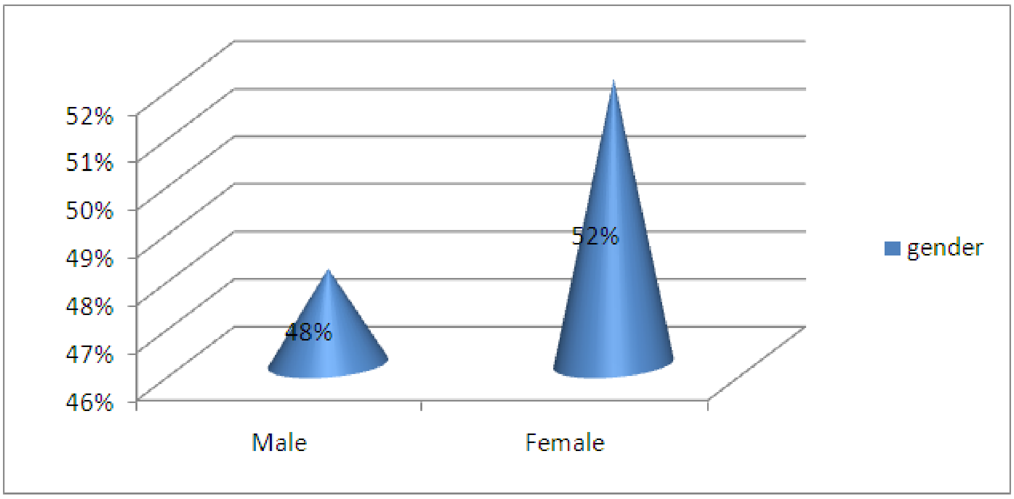

Fig 1.2 Respondents by gender

Source: survey data, 2014

The female dominated the investment sector as they are more single mothers in the financial sector mostly in banks, and are the family guardians. Most females mainly of the 31-40 years dominated this sector as there was call for 54% of women in parliament by Vice President in support of gender equality in Zimbabwe.

1.7.3 Qualifications of respondents

The qualifications of the respondents help the researcher to determine whether education influence perceptions. The researcher targeted the working group as they can decide on their own to undertake investments. The research shows that the highest percentage in the financial institutions is degreed people that have 59% of the population. The diploma level constituted 26% of the population and the 'O'Level is 3%, which is the lowest.

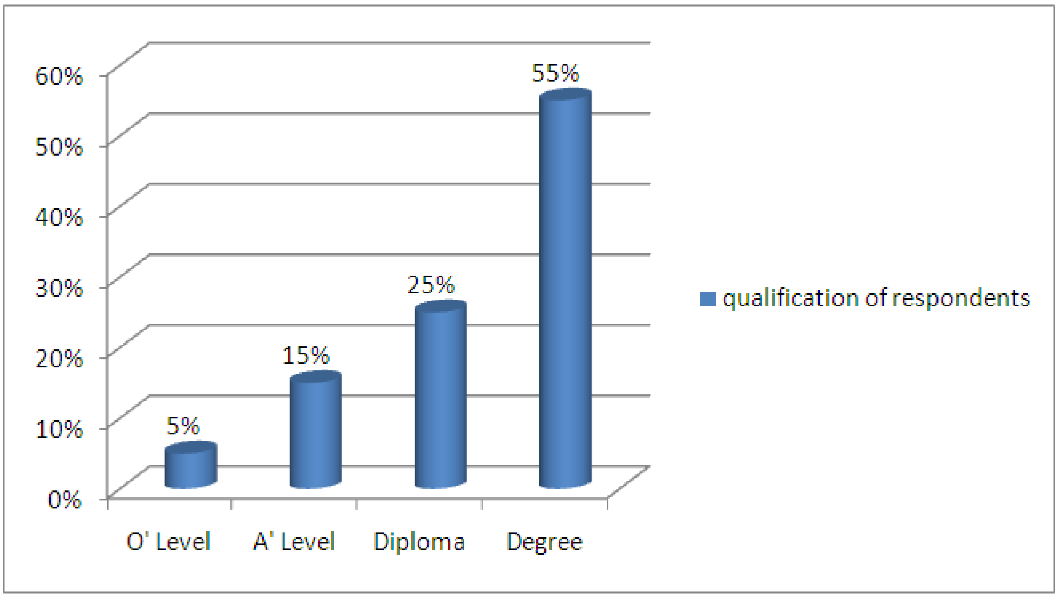

Fig 1.3 Qualification of respondents

Source: survey data 2014

Majority of the respondents hold degrees as their qualifications as they are managers and analysts, since it is the critical area of the financial sector it needs skilled and professional personnel.

1.7.4 Investment Experience of Respondents

The research reveals that 45% of the investors have experience of more than 4years but less than 5years.Those above 5years adds up to 5% of the total population, 2-3years is 11%, 1-2years 155 and the new investors with less than 1year of experience is 24%. This shows that people still doubt this foreign currency regime and are not confident of what to invest in. Many people are fearing to risk and are resorting to other businesses ,hence the liquidity challenges has forced people to live on basic commodities and not taking risks.

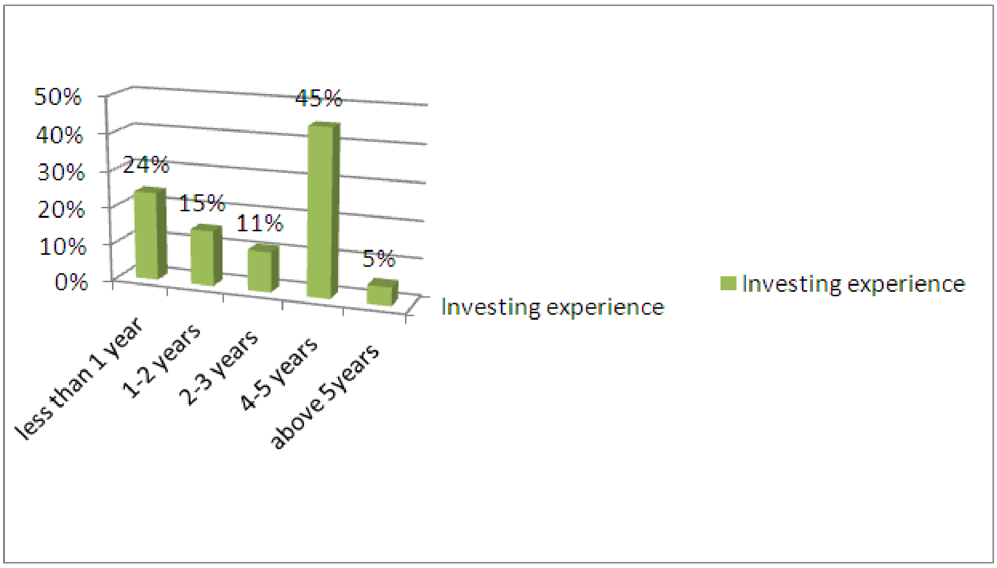

Fig 1.4 Investment Experience of Respondents

Source: survey data, 2014

Many people do not want to take risk in this multi currency regime, hence have the attitude of wait and see to participate when things stabilizes. The respondents are not confidence with the current economic situation, hence cannot predict the future. In this era the liquidity challenges has forced people to leave on basic commodities and not taking risk on investment activities.

1.8 Financial markets prevalent in Zimbabwe

In Zimbabwe the respondents highlighted that capital markets are dominating financial markets with 89%, and money market 11%. The respondents were of the opinion that due to economic instability in Zimbabwe during this multicurrency regime investors have neglected derivatives. The investment managers were encouraging people to invest in treasury bills but because of lost confidence people are not coming forth. Yes, trading in the financial markets is there but people are expecting performance level to rise.

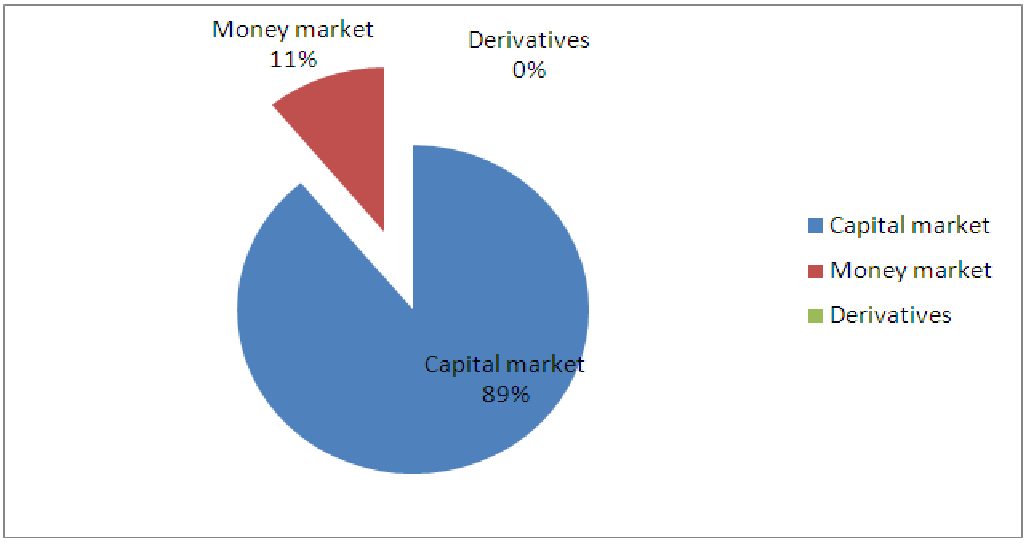

Fig 1.5 Financial Markets in Zimbabwe

Source: Survey Data 2014

1.8.1 Multi currency regime introduction

Fig 1.6 shows that 51% of the respondents have the idea that the introduction of multi currency has improved the financial markets situation in Zimbabwe. This has caused stabilization of economic aspects like interest rates and inflation. Treasury bills are not as common as they used to be in the local currency era. Other respondents were indifferent about the current situation and were not sure about the changes in the market that have caused by the multi currency. This has caused reduction in manufacturing industry in Zimbabwe as it is witnessed by the import of basic commodities from neighboring countries.

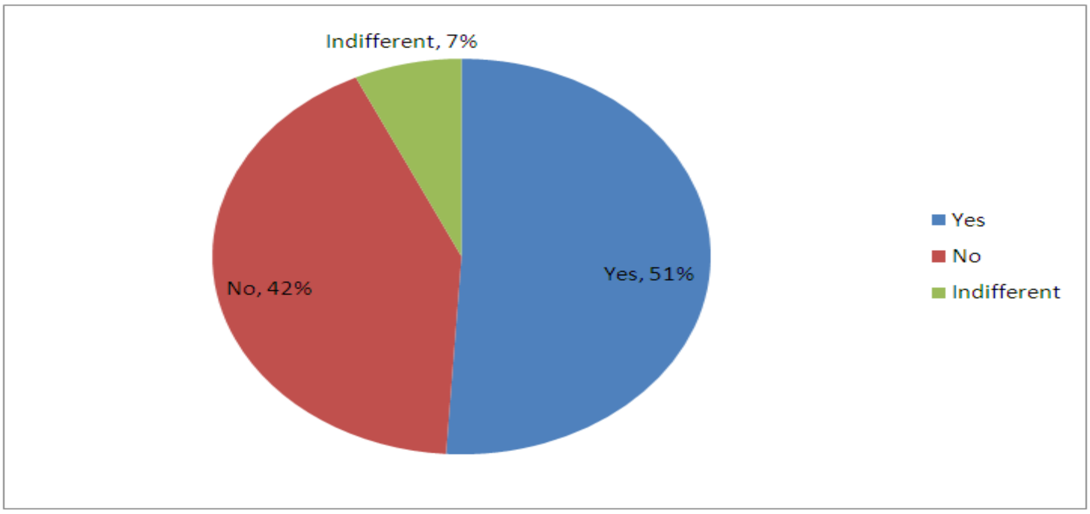

Fig 1.6 Effect of the multi currency introduction

Source: Survey Data 2014

1.9 Investment Strategies in the Financial Markets

In the financial markets, investors prefer value investment strategy as it considers the intrinsic value of a company as they believe that are undervalued. This has been supported by Heck (2006) when he said that value investing is about finding stocks that the market has not correctly priced. This is shown by a 33% yes respondents. People have resorted to buy and hold strategy before the economic ill health in Zimbabwe, thereby reducing the number of investors holding on to this strategy to 27%. This is because investors fear uncertainty of the future. Growth investment strategy shows a 25% whereas dollar cost strategy has 15%, as respondents were somehow ignorant of these strategies.

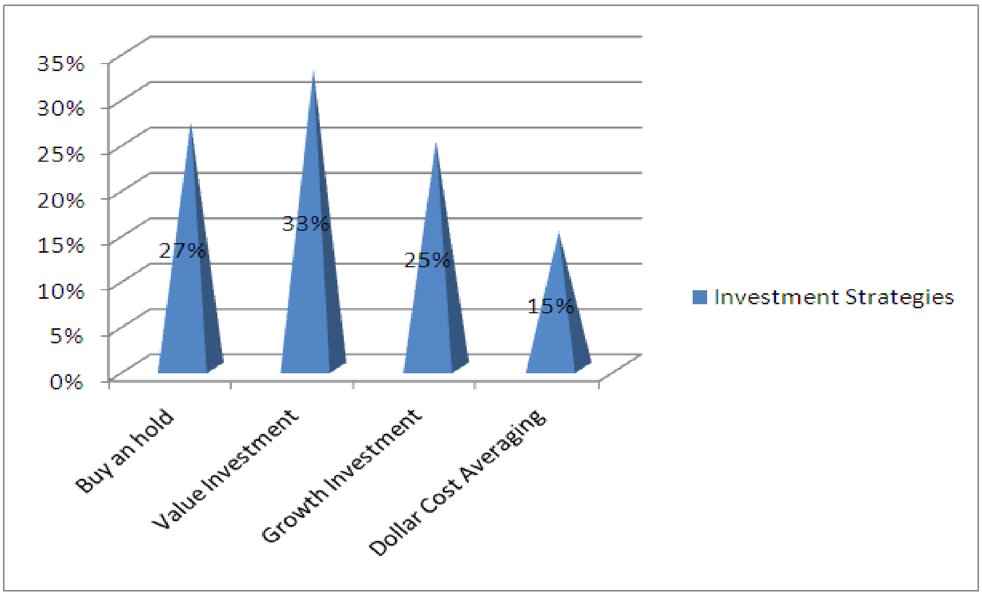

Fig 1.7 Investment Strategies

Source: Survey data 2014

V. Conclusions And Recommendations

1.10 Conclusions

The researcher made two major conclusions from the study as follows:

- **Types of investment strategies**

The respondents prefer value investment strategy as it considers the intrinsic value of a company as they believe that are undervalued. This has been supported by Heck (2006) when he said that value investing is about finding stocks that the market has not correctly priced. Investors are not willing to hold for so long without getting a return in short period of time. Avandani (2010) supported the value investor, is more concerned with the business and its fundamentals than other influences. Investors are lacking information about the dollar cost averaging, so there is need for informative campaigns.

- **Financial markets prevalent in Zimbabwe**

The respondents highlighted that capital markets are dominating financial markets. This is because private and public institutions are more concerned with raising funds as highlighted by Brealey (2004). The money market is being utilized by investors who require quick money in very short period of time. The derivatives have been neglected due to economic instability in Zimbabwe during this multicurrency regime. In addition, investors have little information on the derivatives so they are not sure of the effects and benefits.

1.11 Recommendations

The nation of Zimbabwe should involve itself in economic activities such as involvement in financial investments for economic growth. In addition, the specific recommendations to the identified stakeholders are given as follows:

- **Commercial banks**

As noted that commercial banks are the ones who deal with the majority of the people in the financial sector, they should take a lead in education of financial markets and investments. Zimbabwean banks should emulate and follow what CBZ Bank have done on educating the public through their advertisements of insurance schemes and pension funds rather than concentrating on the deposits taking only.

- **Investors**

Investors should be confident in taking risks and apply investment strategies. Investors must be in touch with the prevailing market situation in the financial market so that astute financial decisions are made. More so, all investors must familiarize themselves with economic analysts and professionals` advice in order to venture into best investment strategies.

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