

**SECURITIES AWARENESS WEEK 2006**  
**THE CAPITAL MARKET: THE MISSING KEY TO GHANA'S ECONOMIC**  
**GROWTH AND DEVELOPMENT.**

**Access To Finance: The Capital Market As An Alternative Option: The Investor  
Base Of The Securities Market: Shared Experiences: Point Of View Of An Investor.**

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**Introduction**

Presentation: Observations and Recommendations

**Observations:**

**1. The market:**

Opportunities:

*Safety.* Regulations surrounding listed companies create some level of safety, including the careful selection of auditors. This is crucial. The market thrives on sound, accurate and timely financial statements: players are expected to observe ethics of integrity, independence, confidentiality, due care, among others.

*Yields* are expected to be above T-bill which has been a yardstick for people with temp excess cash/investible funds with risk aversion. Certainly, it is expected to exceed inflation.

*Non-distractive:* could help workers concentrate on their work while their capital works for them. Challenges of running a tro-tro eg., could be enormous; Or bakery, farm, or trading.

Consider opportunity cost to the establishment, public or private enterprise creates an identification with wider economy as a shareholder of a listed company; people tend to follow the fortunes of the cos, and this is good.

Challenges:

(a): the market is so small and narrow. Presently only 31 companies. Even of this, not all 31 make it to Ghana Investment Company list of Ghana Club 100. At this last count, as many as 5 were not on it (CPC, GWEB, Starwin Products, Super paper, and Sam Woode).

In terms of spread also, there are issues. Credits of banks to private sector constitute about 34% to the service sector; the banks have identified that sector as profitable. Compare that to the fact that of the 44 financial institutions on the Ghana Club 100, only 6 are on the GSE: that is 14%, of the sector, or just 6% of the entire Club number. (granted that in the case of the banks one were considering total value, whereas here one is talking about numbers, but the disparity is clear. One may also add, though, that the 44 financial institutions include as many as 18 rural banks, and of course the insurance companies).

Money supply outside the banking sector continues to be a big issue in the country: C8,000 billion presently. Not necessarily idle money, but certainly not money utilized at the optimum.

### ***Liquidity***

Investors invest for profit, for safety and for liquidity. Market appears very illiquid!!!

Liquidity by all accounts the bane of the market. After suffering massive devaluation of currency to as high as 90% on occasions in the distant past, Ghanaians are used to loss of wealth, although naturally they say “never again”. It tends to shake one’s faith. This also occurred during periods of demonetisation when people rose up in the morning only to be told that legitimate currency issued by the Government would no longer be legal tender after a relatively short of period of a few weeks, leading to panic and anxiety, both of those who chose to keep their money under their mattresses, as well as those who were suspected of having illegally amassed wealth which was being suspected of being kept under mattresses and deep freezers.

I’ll never forget the story of the women somewhere in the Brong Ahafo Region. The pain of seeing one’s own legitimate earnings turn to dust, as it were: paper useless for any purpose.

What investors are looking for is profitability as well as LIQUIDITY. Investors want to be able to take advantage of new opportunities.

Capital *market*- experience: The experience on the market is often where there is not enough to buy or sell, or sufficiently interested people. No.1 deterrent. The tendency to keep resources in cash, in my view, comes from traditional response of bankers to savers: queues, go and come; we have closed; we don’t have denominations you are looking for.

Solutions: keep the money in the house: currently C8200 billion money out side the banking system. Money not put good use.

One solution to overcoming obstacles of liquidity is the use of non-certificate shares. It is taking the GSE (and the BOG) too long to employ this concept of non-certification of

shares. “Rome was not built in a day”. Yes, but things that could take weeks need not take months.

Of banks’ recent average 25% of their total assets in investments, only a miniscule of it if anything at all, is in securities and not equities. Most of it is in Treasury bills and Treasury notes.

Level of agm participation: dominated by issues about dividends, calls for bonus shares, quibbling about audit fees; hardly any about capital growth.

The market seems insensitive to news in the corporate world that should affect stock prices: the securing of contracts, the launching of new brands, the movement of key executives, This is also reflected in the trend of discussion of reports at agms. In money matters, time is of the essence: the timing of release of financial results, the fact of movements of key executives etc. time is everything. III: the man who goes to Kwaadaso to buy his tomatoes and other vegetables around 4 pm. Gets a bargain! In some cases, you’d better be early, though! A little investment done over a LONG period of time often yields a lot. Accurate information released in a timely manner suggests input of high value and close attention which costs money and should reward those who put in the hours!

## **2. Brokers (Licensed Dealing Members)**

Presently about 16, so there are many to choose from. They do their best to respond to investors requests, but there are often issues:

Is their commission too high? They ought to have *INCENTIVES* to chase investors to trade in stocks to stimulate the market.

There challenges in the area of timely feedback on orders placed, with some brokers not providing accounting statements; the process of producing and delivering stock certificates has a great part in stalling the free flow of funds.

Investors could do with advice from brokers: opportunities; warnings. Hardly any INTIATIVES from brokers.

There appears to be absence of analysts on the market that would issue flash alerts to investors who subscribe to their analysis and reviews.

No investor advise: terms like tailing stop are not even heard of: referring to minimum prices at which your broker is empowered to sell your stocks in order to cut short losses or take profits: thus not much opportunity to really take short-term advantage of the

cycles in the market. Long-term investing, while being a good approach, could also result in waking up to find that capital growth in your stocks has been eroded by the seasoning swings; you will have to wait for many more years before regaining position.

Thus there is absence of investor analysts to guide and advise. Ishmael Yamson leaves Unilever; perhaps no impact on Unilever stocks; but supposing he takes on chairmanship of say Camelot: will share prices rise on accounts of this? Obia nye obiaa; so we all advisers, and in the end we tend to under-perform.

## **Ghana Stock Exchange**

To inspect books of brokers to ascertain how they are keeping investor's money – and for how long? Record-keeping of when instructions are received, whether accompanied by money or not; when instructions are carried out, and drawing conclusions on reasonableness.

Issues: conflict of interest: of sitting on a board that legislate on your company, or one in which you have control! We need serious lessons about conflict of interest in this country. What it is; illustrative situations; illegality of it – sometime; the immoral aspect; dangers – short term and long-term. Classic: having your company compete in bidding when you are the one setting the standards, or part of the evaluation team. Harming the very foundation of society, namely: integrity, confidence.

The GSE must take measures to address the continued existence of small companies and enterprises in the economy. C8, 000 billion outside the banking system is way too much. “Small may be beautiful” but then one loses the advantages of economies of scale etc. The role of accounting is very crucial in these issues: the proper costing of various inputs, including capital and time, and reflecting them in arriving at profits and the comfortable reliance on such statements, in my view, lies partly at the heart of the individualism that characterizes many of our small companies. We cannot be efficient in this manner.

GSE to act as facilitator!!!!!!!!!!!!!!!!!!!!!! Things just don't happen; they are brought about by people!

## **Securities and Exchange Commission**

To increase it's monitoring. No system works perfectly anywhere in the world without monitoring and evaluation and the taking of corrective measure. Brokers trading with investors money; or not actively carrying our sell\buy instructions. Do they maintain adequate records for inspectors to assess things like this? *People do what they are supervised to do and not what they are required to!*

## **Conclusion:**

From statistics and our review, it is clear that we have room for improvement and effectiveness.