Investigating the Investment Profiles of Nigerian Small and Family Business Owners

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Abstract

Individual investors make portfolio investments along with various alternatives for the purpose of increasing their profit. Unlike the financial sector that is heavily regulated with coherent risk policy, the small and medium enterprises do not have central oversight or guidance for managing risk taking behavior of decision makers in order to ensure that approaches being taken are efficient, effective, and account for risk-risk tradeoffs. In this work, the investors risk appetite survey was conducted with the aim of exploring and profiling the Nigeria small business owners and managers' risk appetite that drives their investment decisions and portfolio formation. The study adapted the investment personality questionnaire developed by the Canada Life Assurance Company. Hundreds of small business including family owned businesses were surveyed to examine the relationship between personalities and investment decisions. The five investment risk personality considered are conservative, moderate, balanced, advanced and aggressive. The data profiled reflects a diverse range of investor attitudes, with a general preference for balanVolcing security with growth, and a notable inclination toward long-term goals and investments. Results indicate that Nigerian small business owners are largely moderate and balanced in their risk appetite classification with over 70 percent across four major areas of investment. This finding is similar for all sex and age categories. The results findings of the study will provide traders with information useful in formulating net portfolio and hedging policies in line with the investors' risk appetite. The expected impact of the outcome of this research will improve access to market information and investors' risk appetite profiles; guide informed portfolio formation for investors; and ensure financial stability and institutional resilience.

Keywords: Risk Appetite, small and family business, investment personality, investors risk tolerance.

Introduction

Individual investors make portfolio investments along with various alternatives for the purpose of increasing their profit. Most of the time, these investments carry different risk levels and investors make portfolio investments by evaluating these risks of different levels. During risky investment decisions such as portfolio selection and diversification, individual investors make their decisions under the influence of various factors. Among these; there are demographic, social and economic factors like income level, age, gender, educational background, marital status and quantity and quality level of one's profession (O'Neill, H., & Wilson, L. (2017). This study is conducted for the purpose of examining the demographic, social and economic factors mentioned above that may have an effect on predispositions of individual investors operating in Borsa Istanbul (BIST) towards risk taking (Kahneman, D., & Tversky, A. (1979)). In the analyses done within this scope, it has been demonstrated that the factors discussed above except marital status all have significant effect on the risk perception of individual investors during their portfolio investments. Some investors are more willing than others to accept periodic declines in the value of the portfolio as a trade-off for potentially higher long-term returns.

A portfolio is a basket of different investments. The returns earned by a specific portfolio depend on the mix of investments that make up the portfolio. Investment portfolios aimed at providing higher returns tend to have greater swings in value (providing both gains and losses). The more aggressive your portfolio, the more pronounced these swings become, and the more often short-term losses can occur. Realizing there will be downturns in the market, in the event of a significant loss, how long are you prepared to hold your existing investments in anticipation of a recovery in value? investors often have distinct phases in their investment plans. The initial phase is savings and growth. During this time an investor builds up a portfolio toward a future goal. The second phase is typically the use of funds, either for a specific purchase or for income.

Small and medium-sized enterprises (SMEs) play a crucial role in Nigeria's economy, contributing significantly to employment, GDP, and poverty alleviation. Among the many SMEs in the country, small and family-owned businesses stand out due to their unique characteristics, management structures, and investment behaviors (Adebayo, & Ojo, 2022; Nigerian Stock Exchange, 2023; Nigerian Bureau of Statistics, 2021). The investment profiles of these businesses are influenced by various factors, including access to finance, entrepreneurial risk appetite, cultural influences, and government policies. This article investigates the investment profiles of Nigerian small and family business owners, examining their investment strategies, challenges, and opportunities in a dynamic and rapidly evolving economy (Olamide, 2021).

Our paper contributes to this literature by showing that personality traits are related to the cross-sectional difference in beliefs after controlling for demographic variables. This result puts forward personality traits as promising variables for understanding why some people are persistently optimistic while others are persistently pessimistic. In a similar spirit, we also show that personality traits are correlated with cross-sectional differences in risk aversion and social interaction. Our paper is also related to the growing literature on the implications of personality for economic outcomes, including income, wealth, educational attainment and achievement (Almlund et al., 2011 ; Hirshleifer, 2020).

In the context of financial markets, risk-taking behavior refers to an investor's willingness to make financial decisions that have uncertain outcomes, including potential losses or gains. Risk-taking is influenced by various factors, including socio-demographic variables such as age, gender, education, and income. Understanding these factors is critical, especially in emerging economies like Nigeria, where investor behavior plays a significant role in the development of the financial sector (Dallah and Adeleke, 2018).

The Nigerian investment landscape has evolved in recent years, with more individuals engaging in various forms of investment, such as stocks, bonds, mutual funds, and real estate. However, the risk tolerance of Nigerian investors is still a subject of study, particularly as it relates to the socio-demographic factors that shape their decisions. This article investigates how these factors influence investment choices and the broader implications for financial market growth in Nigeria.

Conceptual framework

Risk appetite articulates the level of risk an investor or business owner is willing to take to achieve its stated strategic goals. Having a risk appetite frameworks would assist in understanding business' risk profile in order to find an optimal balance between risk and return. This would ultimately aid nurturing of healthy risk culture and defined the risk tolerance of the company. Risk appetite represents the willingness and the ability to take risk (Dhaliwal, 2018).. Due to the complexities of the Nigerian business environment, a lot of effort is required to fully grasp the constraints and the ability to assume risk and hence, we expect this to be a gradual cognitive process, which is coming from the baseline investors risk appetite survey, to be updated from periodically to guide new market entrants, new business to have new understanding of risks in the market.

Risk-taking behavior in Nigerian investors can be categorized into various levels: conservative, moderate, and aggressive. These categories are influenced by the socio-demographic factors outlined above, as well as broader economic conditions and individual experiences. The categories you mentioned represent different types of investors based on their risk tolerance, financial goals, and investment strategies. Here's a breakdown of each type:

1. **Conservative Investors:**
   These investors have very low risk tolerance and prioritize safety and security over high returns. They typically focus on low-risk, stable investments such as bonds, money market funds, and dividend-paying blue-chip stocks. Their primary concern is preserving capital rather than maximizing returns. **Typical Portfolio Allocation:** A large portion (often 70-90%) is invested in bonds or cash equivalents, with a smaller portion in equities. The t**ime horizon is usually s**hort to medium-term (3-5 years or less), and the investment goal is to minimize risk and protect their wealth, often in retirement or near-retirement stages.
2. **Moderate Investors:**
   The categories of investors have low to moderate risk tolerance and are willing to take on some risk for higher returns but still prefer a level of stability. Their i**nvestment strategy is that t**hey often invest in a mix of bonds and stocks, balancing risk and reward. Moderate investors may choose a combination of growth stocks and more stable, income-generating assets like bonds and dividend stocks. Their t**ypical portfolio**

allocation is around 40-60% in stocks and the rest in bonds or other fixed-income securities. With t**ime horizon of m**edium to long-term (5-10 years), their investment goal is to achieve modest growth while protecting capital. Moderate investors may also be preparing for retirement but are more comfortable with some level of market volatility.

3. Balanced Investors:

The categories of investors have moderate to high risk tolerance and are willing to accept a higher degree of risk for potentially higher returns but still aim for a balanced approach to protect against major downturns. The i**nvestment strategy for b**alanced investors is typically a well-diversified portfolio that includes a mix of stocks, bonds, and other asset classes (like real estate or commodities). They may use a strategic asset allocation approach to balance risk and growth. Their t**ypical portfolio allocation is** 50-70% in equities, with the remaining portion in fixed-income securities. Their t**ime horizon is** Long-term (10 years or more) with the goal to achieving a balanced growth strategy that provides a combination of capital preservation and higher returns.

4. Advanced Investors:

The advanced investors have high risk tolerance and have a deep understanding of the market and may be willing to take on significant risk in pursuit of higher returns. Their investment strategy often use complex strategies, such as options trading, leveraged ETFs, and international diversification. They may also invest in growth stocks, emerging markets, or alternative assets like cryptocurrencies and private equity. Typical portfolio allocation vary widely, often with a larger proportion in equities, growth assets, or speculative investments. They might also use hedging techniques. With a long term time horizon but with the flexibility to adapt to short-term opportunities or risks, their goal is to maximize returns, often through strategic market timing or in-depth analysis of investment opportunities.

5. Aggressive Investors:

Aggressive investors have very high risk tolerance and are willing to take on substantial risk, including the potential for significant losses, in order to maximize returns. The investment strategy is considered **a**ggressive and their focus is on high-growth assets such as small-cap stocks, tech startups, or emerging markets. They may use high-risk, high-reward strategies such as margin trading, options, or speculative investments. The typical portfolio allocation is **o**ften heavily weighted (70-100%) in stocks, especially growth or speculative stocks. They may also invest in real estate or alternative assets. The time horizon is Long-term (10+ years), though some may take a more active, short-term approach, and the goal is to achieve substantial growth, understanding that volatility and potential losses are inherent to the strategy.

Methododology

This study employs a descriptive exploratory research method approach to investigate the investment profiles of Nigerian small and family business owners. Primary data were collected through the conduct of investors risk appetite and market confidence survey. The data collection instrument was a questionnaire administered by appointed research assistants. Participants were purposively selected from diverse sectors including retail, manufacturing, agriculture, and services to ensure a representative coverage. The survey data will be analyzed using descriptive inferential statistics and contingency tables.

Results and Discussion

The analyses results of investors risk appetite profiles by their demographic characteristics are presented in Tables 1 – 4. Detail implications of the result findings are discussed.

Table 1 displayed a breakdown of investment allocations across various asset classes and sectors for different investment profiles: Conservative, Moderate, Balanced, Advanced, and Aggressive. The results and analysis of each profile based on the provided percentages, for investment in shares, it shows that as you move from Conservative to Aggressive, the allocation to shares generally increases. However, in the Aggressive profile, shares make up a lower percentage compared to Moderate and Balanced profiles. However, debentures are heavily favored in Conservative and Moderate profiles, with a sharp decline in Aggressive profiles, indicating a preference for higher risk investments in the more aggressive profiles. For stocks futures and options, **t**hese high-risk instruments see a significant increase in the Moderate and Balanced profiles but are underrepresented in the Conservative and Aggressive profiles, with a sharp decline in the Aggressive profile.

Table 1: Investment Profile of Small Business Managers and Classification of their Investment Portfolio

	Investment profile				
	Conservative	Moderate	Balanced	Advanced	Aggressive
Shares	14.4%	33.9%	33.3%	14.4%	3.9%
Debentures	15.8%	42.1%	26.3%	14.0%	1.8%
Stock Future and Options	12.7%	38.8%	32.1%	14.2%	2.2%
Mutual funds	11.5%	37.7%	31.1%	13.1%	6.6%
Government bonds	12.8%	39.7%	29.8%	14.9%	2.8%
Fixed deposits	14.3%	41.4%	27.6%	12.3%	4.4%
Insurance policies	12.1%	34.4%	35.7%	14.6%	3.2%
Treasury bills	8.0%	49.6%	29.2%	11.7%	1.5%
Other Portfolio	12.6%	31.8%	33.6%	16.8%	5.1%
ICT sector	11.8%	45.4%	28.3%	13.2%	1.3%
Banking sector	15.3%	34.7%	31.5%	13.1%	5.4%
Consumer goods	15.3%	40.0%	26.7%	15.3%	2.7%
Agriculture	11.9%	35.7%	36.4%	14.7%	1.4%
Conglomerate	9.5%	40.1%	29.2%	16.1%	5.1%
Service sector	16.7%	37.9%	31.1%	12.1%	2.3%
Oil and gas sector	10.1%	39.0%	31.4%	14.5%	5.0%
Healthcare	9.0%	39.3%	36.1%	13.1%	2.5%
Insurance	16.4%	42.9%	22.9%	14.3%	3.6%
Industrial goods	9.2%	40.3%	40.3%	9.2%	.8%
Real estate	9.5%	38.7%	32.1%	16.8%	2.9%
Others sector	11.6%	32.9%	33.8%	17.4%	4.3%
Overall	12.8%	37.3%	32.2%	14.5%	3.3%

The Moderate and Balanced profiles favor mutual funds, while Conservative profiles have a lower allocation. The Aggressive profile has the lowest allocation. Conservative and Moderate profiles have a higher emphasis on government bonds as a safer investment. The Aggressive profile has a very small allocation. Fixed deposits are highly favored in Conservative and Moderate profiles, and their allocation decreases in more aggressive strategies. Insurance is favored in Conservative, Moderate, and Balanced profiles, with a steep decline in Aggressive profiles. Treasury bills are most heavily favored in the Moderate profile, reflecting a preference for safe, short-term investments in lower-risk strategies. A significant preference for ICT in Moderate profiles, with reduced interest in the more aggressive profiles.

Table 2: Investment Profile of Small Business Managers and Classification of their Investment type

		Investment profile				
		Conservative	Moderate	Balanced	Advanced	Aggressive
Type of Investor	Hereditary Investor	6.7%	40.0%	33.3%	15.2%	4.8%
	New Generation Investor	14.9%	36.5%	31.9%	13.9%	2.8%
Category of Investor	Long Term Investor	7.9%	43.9%	30.2%	12.9%	5.0%
	Day Trader	17.7%	32.0%	32.6%	15.4%	2.3%
	Both	11.3%	37.4%	33.9%	14.8%	2.6%
Types of Market operated	Primary Market	20.2%	23.1%	40.4%	11.5%	4.8%
	Secondary Market	12.6%	43.1%	29.3%	11.5%	3.4%
	Both	7.9%	40.4%	29.8%	19.9%	2.0%
Experience in the Market	less than 3 years	20.9%	34.5%	32.4%	8.6%	3.6%
	3-5 years	10.2%	45.5%	29.4%	12.8%	2.1%
	5 years and above	6.8%	26.2%	36.9%	25.2%	4.9%

The results displayed in Table 2 show a breakdown of different types of managers, categorized based on their investment profiles (Conservative, Moderate, Balanced, Advanced, and Aggressive), their investor type, market activity, and experience level. This distribution highlights how investors' profiles are influenced by factors like experience, investment style (long-term vs. day trading), and market type (primary vs. secondary).

Data show that hereditary Investors tend to have a more conservative approach, with the largest group (40%) opting for the moderate profile, and only 4.8% selecting an aggressive profile. Managers that are New Generation Investors are more balanced across categories, with the majority (36.5%) opting for the moderate profile and 14.9% leaning conservative. For business managers that consider themselves as Long-Term Investors, the majority (43.9%) prefer a moderate profile, followed by 30.2% opting for a balanced profile, indicating a cautious but steady approach. On the other hand, the Day Traders are more aggressive with a greater proportion (17.7%) selecting the conservative profile. However, 32% still prefer the moderate profile, and 32.6% opt for balanced, showing a balanced, short-term approach in investment. Investors who blend long-term and day-trading strategies are mostly balanced (33.9%) or moderate (37.4%).

Investors in the primary market tend to be more conservative, with 20.2% opting for a conservative profile, followed by 40.4% choosing the balanced profile. Those in the secondary market are more diverse, with a significant proportion (43.1%) selecting a moderate profile, showing a preference for both risk and stability. Only 3.4% are aggressive. Investors operating in both markets show a similar distribution, with 40.4% selecting the moderate profile, followed by 29.8% choosing balanced. Investors with less experience tend to be more conservative or moderate, with 34.5% opting for a moderate profile and 20.9% for conservative. Those with experience 3-5 years are mostly moderate (45.5%) and balanced (29.4%), with a smaller portion (12.8%) opting for advanced profiles. Investors with more experience are more likely to lean towards balanced (36.9%) or advanced (25.2%) profiles, though some still stay moderate (26.2%).

Table 3: Investment Profile of Small Business Managers and Classification of their Investment goal

		Investment profile				
		Conservative	Moderate	Balanced	Advanced	Aggressive
Which of these best describe your choice of portfolio	to generate immediate income	30.8%	40.7%	23.1%	5.5%	0.0%
	to generate income for long term	9.9%	43.6%	28.7%	13.3%	4.4%
	to provide for my dependents	5.0%	29.2%	42.5%	20.8%	2.5%
	to fund a large purchase in the future	10.5%	23.7%	36.8%	21.1%	7.9%
Which of the following ranges includes your age?	under 30 years	18.2%	42.0%	25.0%	12.5%	2.3%
	30-39 years	14.5%	44.4%	24.8%	9.4%	6.8%
	40 - 49 years	11.6%	29.1%	39.5%	17.4%	2.3%
	50 - 59 years	9.0%	41.0%	30.8%	16.7%	2.6%
	60-69 years	14.6%	22.0%	41.5%	22.0%	0.0%
	70-79 years	0.0%	30.0%	50.0%	20.0%	0.0%
	Over 79 years	0.0%	20.0%	70.0%	10.0%	0.0%
Sex	Male	12.1%	35.1%	34.7%	14.7%	3.4%
	Female	14.1%	41.1%	28.2%	13.5%	3.1%
Educational Background	secondary education or lower	16.7%	33.3%	30.0%	13.3%	6.7%
	tertiary education	9.9%	42.9%	32.3%	11.8%	3.1%
	Professional	13.3%	37.0%	34.1%	13.9%	1.7%
	Others, please specify	17.6%	20.6%	26.5%	29.4%	5.9%

Table 3 summarises how individuals with different investment profiles are choosing their investment portfolio strategies and financial goals. The breakdown shows that conservative investors prioritize immediate income generation, while **m**oderate and balanced investors lean towards long-term income generation. Balanced investors prioritize providing for dependents, with moderate and advanced following closely behind, and also focused on funding future large purchases. It is worth reporting that younger individuals tend to prefer more moderate investment profiles, while 60 plus years are are invested in balanced portfolios, with a few opting for advanced strategies. Secondary education or lower are more concentrated in Conservative and Moderate profiles and tends to be more risk-averse with a focus on moderate income. Those with Tertiary education are Predominantly aligned with Moderate and Balanced profiles. This group shows a balanced approach to investing, focusing on income for the long term.

Table 4: Portfolio Goal and Investment Choices based on return risks

		What is your major goal for your portfolio?				
		to ensure my portfolio remains secure	to see my portfolio grow and to avoid fluctuating returns	to balance growth and security, and to keep pace with inflation	to provide growth potential and to accept some fluctuation in returns	to provide sole objective of potential long-term growth
In which of these portfolio would you prefer to invest	Portfolio A;possible loss of 2%and profit profit of 13%	11.1%	31.3%	39.4%	11.1%	7.1%
	Portfolio B;possible loss of 7%and profit profit of 20%	9.7%	25.5%	40.0%	14.5%	10.3%
	Portfolio C;possible loss of 13%and profit profit of 28%	12.8%	23.4%	39.4%	14.9%	9.6%
	Portfolio A;possible loss of 20%and profit profit of 37%	3.3%	30.8%	39.6%	17.6%	8.8%
Overall		9.3%	27.5%	39.6%	14.5%	9.1%

Table 4 provides a comparison of different portfolios with different risk and return profiles. To ensure portfolio remains secure, there is a preference for lower risk, where the possibility of significant losses is minimal. In order to see portfolio grow and avoid fluctuating returns, there is a preference for steady growth with minimal volatility. For a balanced growth and security, and to keep pace with inflation they want a mix of growth and stability, with returns that outpace inflation over time. To provide growth potential and accept some fluctuation in returns, they are open to volatility, seeking higher returns with more risk. And to provide the sole objective of potential long-term growth, they suggest they are willing to accept high volatility for the chance at significant long-term returns.

Summary and Conclusion:

Investigating the investment profiles of Nigerian small and family business owners reveals a mix of caution, limited access to capital, and a preference for traditional sectors. We conducted investors risk appetite survey among investors and managers of small and family business in Lagos to study the implications of personality traits for investment decisions. Our evidence suggests that socio-demographic characteristics and risk personality profile of these investors and managers may affect investment decisions. The need for a coherent risk policy cannot be over emphasized since risk-based approaches to the design of regulation and compliance strategies can potentially improve the welfare of citizens by providing better protection from hazards and more efficient services from government. Often, there is little or no central oversight or guidance to ensure that approaches being taken are efficient and effective, adequately account for risk-risk tradeoffs. This can only be achieved with the use of robust risk measures based on adequate and appropriate models as the present study sought to address. In addition, the results of the study will provide traders with information useful in formulating net portfolio and hedging policies in line with the investors' risk appetite. Business managers can also use the risk measures as a means of analyzing the performance of traders for compensation purposes and for allocating reserves and capital adequacy. Results from the research can also be used by non- financial corporations, pension plans and mutual funds, clearing organizations, brokers and futures commission merchants, and insurers. The expected impact of the outcome of this research will improve access to market information and investors' risk appetite profiles; guide informed portfolio formation for investors; and ensure financial stability and institutional resilience. The risk-taking behavior of Nigerian investors is influenced by a complex interplay of socio-demographic characteristics, economic conditions, and cultural factors. While younger, more educated, and wealthier individuals tend to exhibit higher risk tolerance, older and less financially educated individuals prefer more conservative investment approaches. Understanding these patterns is vital for financial institutions, policymakers, and educators, as it can help tailor products and services that align with the diverse risk profiles of Nigerian investors. The rise of digital technology, increased access to government support, and diversification into new markets present promising opportunities for these businesses to expand their investment portfolios and contribute more significantly to the Nigerian economy. Addressing the challenges and leveraging the available opportunities can lead to greater financial growth and stability for small and family businesses in Nigeria.

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