

The Impact of the Indigenous Economic Empowerment Act of Zimbabwe on the Financial Performance of Listed Securities

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Abstract

This study examines the daily closing price performance of ZSE listed securities post enactment and subsequent adoption of the Indigenous Economic Empowerment Act by the Government of Zimbabwe. A desk analysis of the closing daily trading prices of the largest counters, by market capitalization, traded on the stock exchange for the period January to April 2010 is made. Interview and questionnaire responses from day traders show a high negative correlation between the promulgation of the Act and the daily trading prices of all counters traded on the ZSE. First difference tests on the counters' price movements yielded strong correlation coefficients which seem to suggest Granger causality between the share price movements and the passing of the Act. Further findings reveal that closing prices of all the largest counters traded on the ZSE were adversely affected by the Act. As a rule, empowerment laws should not significantly and adversely affect trading prices. However, historical backgrounds seem to suggest evidence of rampant systemic inefficiencies resulting from previous empowerment policies implemented in Zimbabwe. This background seems to have induced investment phobia and apprehension among investors. This fear appears to have scared away investors, initially from trading in counters whose ownership structures are likely to be affected by empowerment policies, and ultimately all the other counters. This behaviour affects the daily closing prices of listed securities. However, empowerment laws were found to have the potential to facilitate a prompt escalation of previously underprivileged economic agents onto lucrative industries and markets. One conclusion drawn is that, if properly instituted, empowerment policies could lead to the introduction of new and vibrant entities onto bourses. The introduced entities could have the potential to achieve sustainable profit levels hence sustainable economic development for a country.

Keywords: Empowerment, information effects, market capitalization, securities.

1. Introduction

The Indigenisation Economic Empowerment Act 14 of 2007 was gazetted on March 7, 2008 and was signed into law on April 17, 2008. The law provided for all companies with a share capital above US 500 000 dollars operating in Zimbabwe to arrange for 51% of their shares or interests therein to be owned by indigenous Zimbabweans. On January 29, 2010, the Government of Zimbabwe published regulations with respect to the Act, thereby rendering the Law effective. The regulations included a requirement for companies operating in Zimbabwe to provide specified information to the Minister of Youth Development, Indigenisation and Empowerment, including an indigenisation implementation plan, by April 15, 2010. The publishing of these regulations marked the finalization of the Act and consequently the real implementation effects of the Act would become observable from the latter date onwards.

Trading on the ZSE had started picking up in early 2010 (January to March) after a decade of subdued performance characterized by real value depletion. The ZSE is home to 77 companies drawn from a wide spectrum of sectors. Based on the ZSE's daily market information for November 2010, beverages giant Delta Corp was the market leader with a market capitalization of \$731.4 million, followed by Econet Wireless and Innscor Pvt Ltd with \$435.4 million and \$291.6 million respectively. The top 10 performers had a combined market capitalization of \$2.59 billion, about 65.9% of the total market capitalization of the bourse. The ZSE's market capitalization hit US\$ 3.94 billion by the end of November 2010. Its peak was US\$ 4.2 billion achieved on December 31, 2009. From January 4 to November 30, 2010 a total of 6.2 billion shares were traded yielding US\$3.6 billion. The ZSE's top performers coincided with sectors that were among the first to recover under dollarization.

Prior to dollarization, value was being depleted on a daily basis due to high levels of hyperinflation and a valueless currency which was the legal tender then. Zimbabwe's inflation rate has since fallen to levels below those shown in table 1. Prior to the period under study, credible sources [25-28] had estimated Zimbabwe's inflation to be hovering around 89.7 sextillion percent by the end of 2008. However, the moment dollarization was effected, the inflation rate came down to the levels shown in table 1. The RBZ shut down the ZSE for three months in the last quarter of 2009 alleging some traders were involved in fraud [27]. The bourse resumed trading in February 2010. In the same month, the fastest shrinking economy in the world stabilized and inflation which had previously been estimated at 89.7 sextillion percent in January 2009, slowed [12] to close at 6.9 percent in December 2009 as shown in Table 1 below:

Table 1

| Zimbabwe's inflation figures for the review period | | | |
|---|------|------|------|
| Year | 2009 | 2010 | 2011 |
| Inflation rate | 6.9% | 4.7% | 7.8% |

N.B.: The figure for 2010 is an estimate and that for 2011 is a forecast.

This positive development was buttressed by the adoption of multiple currencies as legal tender in December 2009. The share price appreciations recorded immediately after dollarization appeared to be consequent to real value preservation and perpetuation. Investors now had confidence in investing. Due to the use of hard currencies, their investments would not lose value at an unprecedented rate. The values of hard currencies are not easily adulterated by inflation and unsound payment systems which render transacting in the domestic currency economically disadvantageous.

The Indigenization and Economic Empowerment Act was promulgated to redress perceived imbalances in economic advancement among indigenous Zimbabweans when compared to their privileged compatriots prior to independence in 1980. The Act seeks to redress the perceived imbalance by compelling firms to cede majority control (that is, 51% ownership) to indigenous previously disadvantaged groups and individuals.

The Act took practical shape and force in April 2010. Prior to the enactment of this piece of legislation, the Zimbabwean stock market had been buoyed by healthy expectations of not only capital preservation, but potential dividends and capital gains as well. Real GDP growth had moved from -18.9 percent in 2008 to 5.7 percent by the end of 2010. The RBZ estimated Zimbabwe's 2010 GDP to be US\$ 5.574 billion. The World Bank also forecast a 7.1 percent GDP growth for Zimbabwe for 2010 [12]. Zimbabwe's GDP growth figure for 2010 nearly doubled the average for the entire sub-Sahara Africa, which was forecast at 3.8 percent [12, 27, 28]. The securities traded on the ZSE are highly liquid with a liquidity proxy of 91% in 2010, as indicated in Table 1 below:

Table 2

Liquidity as measured by trading for the period January to November 2010 (in USD)

| | |
|---|------------------|
| Total proceeds from the sales of shares | 3,600,000,000 |
| Total market capitalization | 3,940,000,000 |
| Share sales as a percentage of total market capitalization | 91.3706 % |

A 91 percent share turnover for the period implies a high share sales status. This is due to the large proportion of shares which changed hands in the period under review. The ZSE's Total Market Capitalization represented about 70% of the estimated 2010 real total GDP for Zimbabwe as shown in Table 3 below:

Table 3

Market Capitalization as a percentage of real GDP for the period January to November 2010 (in USD)

| | |
|--|------------------|
| Total Market Capitalization | 3,940,000,000 |
| Total GDP | 5,574,000,000 |
| Market Capitalization as a % of GDP | 70.6853 % |

Investments require capital preservation as a minimum requirement [1, 2, 6, 22]. Trading on the stock exchange had been stalled temporarily due to valueless paper transactions and allegations of fraud on the part of traders [28]. These transactions were a consequence of monetary policy promulgations which left the bourse as the only viable vehicle for accessing the much needed wherewithal to transact in a cash economy which had rampant shortages of cash. The adoption of the multiple currency system which ushered in the US dollar as the principal currency to replace the Zimbabwe dollar brought down inflation to close at 4.7 percent in 2010. Inflation therefore ceased to play a significant role in the financial performance of the counters since the adoption of the multiple currency system [6, 12]. This is in line with what would be expected in economies with a stable currency and low inflation levels. The practical roadmap and submission deadline for firm's proposed indigenization programmes under the Indigenous Empowerment Act was set for April 2010. The announcement of the submission deadlines led to depressed share price performances on the ZSE.

The effect of such a development should be considered in the same light as what transpires in trading trends of counters when there is a significant announcement with a high likelihood of affecting the performance of shares on any bourse. Studies have shown that whenever significant announcements are made, stock values are affected [2, 11, 24]. These are normally referred to as information effects in finance literature [7, 11]. In this case, given investors are motivated to invest by profit potentials and subsequent prospective gains through capital appreciation and value generation [3, 16], one would expect that the counters affected should record price appreciations assuming empowerment is deemed a good thing for business.

This study focuses on the performance of 20 counters with the highest capitalization for the period January 2010 to June 2010. The Indigenous Empowerment Act came into effect in April 2010. The study period adequately allows for significant price movement analysis of the counters for the pre-promulgation and post-promulgation phases of the Act. The pre-promulgation phase has been chosen to provide a basis upon which analysis of the price performance of counters then can be compared with the performance after the passing of the Act. Such analysis acts as the control period analysis and allows the researcher to isolate and eliminate any spurious correlations by focusing on the statistically sound explanations behind the performances of the counters affected by the Act.

The passing of progressive announcements, that is, positive information ought to trigger a rally on share prices, akin to what happens when firms are expected to announce significant profit levels for a trading period [2, 5, 9]. Another positive trigger is when there is a change in management perceived to usher in better qualified executives to replace ineffective managers [21]. If an announcement is perceived to be bad for investors, for example, allegations of insider trading [2], which concept embodies the acquisition of unpublished price-sensitive information in relation to a corporate body's securities, which information is held by the agents by virtue of being connected with the company, investors normally express their displeasure by voting with their feet. They are said to do a "Wall Street walk", in that they will simply move their investment elsewhere. Investors are first and foremost profit-seeking rational beings who seek capital preservation as the foremost consideration in their decision making process in addition to receiving gains, ultimately, from their investments [5, 8]. Given shares are not unique works of art but abstract rights to an uncertain income stream, any significant addition to the risk associated with holding securities tends to instruct the sentiments of investors regarding their portfolio construction [1, 10, 17, 24].

Publicly traded securities' prices may also be affected by the general economy-wide liquidity levels [2]. Liquidity crunches tend to lead to share price plummeting or sticky price movements either way of a sustained stable price level [12]. Stock prices may also be affected by political instability through mainly an inflationary feed through loop. High inflation levels normally lead to astronomical share price spirals [12].

1.1. Principal Research Objective

The main objective of this research is to determine whether the publication of information with the potential to affect the ownership structure of a listed firm can influence the affected counters' prices. In this case, the information item is the Indigenous Economic Empowerment Act and whether it can be regarded a factor that is able to influence the prices of shares traded on the ZSE or not.

1.1.1. Subordinate Research Aims

The principal objective of this research is to come up with prescriptive best practices policy pointers on the implementation of empowerment policies to avoid share price value depletion due to improper empowerment policies' implementation. Such share price value depletion could be due to a mass exodus, that is, the oversell behaviour (leading to supply outstripping demand for shares) of investors, who will rationally be acting out of fear of a repeat of previous empowerment actions which ultimately achieved less than what had been anticipated.

The subordinate objective is the quest for a discovery of which investor types benefit the most when empowerment legislations are passed given a background of previously not so successful empowerment policies in other sectors of the economy.

1.1.2. Research Questions

The study is motivated by the intellectual longing to provide answers to the following questions:

- 1) Can significant announcements affect the closing prices of shares listed on a developing country's bourse?
- 2) If (1) above has credence, when are the price effects of announcements most felt, that is, is it immediately prior to the announcement taking effect, during the effecting period, or after the announcement has taken effect?
- 3) Which investor group benefits the most in an environment perceived to be characterized by skewed empowerment policies?
- 4) Are the prices of shares similarly affected despite the companies belonging to different sectors when a significant announcement is made?

In studying whether there is any correlation between the introduction of new information to the market (in this case, the passing of the Act) and the share price performance consequent to that, there is a great need to always be cognisant of the fact that simply because statistical significance has been achieved it does not necessarily imply that a meaningful and useful relationship has been found. The crucial question to ask oneself is: What has caused the observed covariation? If there is a theory about the joint variation of one variable because of a particular generating mechanism, the sign and size of the correlation coefficient may lend support to that theory, but if no such theory exists or can be devised, the correlation may be classed as nonsense or spurious correlation [15]. In this case, if there is a correlation in the price movements of shares of counters affected by the passing of the Act and those not likely to be directly affected by the Act, then there is a need to find out if there is any theory which supports this observed trend.

This study was conducted to find out whether the passing of the Act could in any way affect the financial performance of the counters that would be targeted for ownership compositional transformations. Since the Act seeks to redress the perceived indigenous inhabitants' underdevelopment which has led to firms being largely owned by those who were not previously disadvantaged in the pre-independent Zimbabwe era (that is the period before the 18th of April 1980).

The research is premised on the assumption that any attribute that is deemed beneficial for shareholders ought to trigger share price appreciations immediately or after a reasonable adjustment period. The adjustment period is normally the period that should have enabled the capturing of all the resultant changes in the share's performance after the occurrence of the event deemed economically salubrious to the investors.

Indigenization is generally regarded a positive and economically noble development. Any form of redress of societal injustices committed in the past is largely expected to attract widespread support from all progressive minded investors. Such a redress should be able to unlock a lot of value and introduce "new" investor groups from the previously disadvantaged groups. These investor groups should be hungry for progress and would have held big plans for corporate growth and success, but could not have brought these to life due to their seclusion from the mainstream economy due to the disempowering and skewed policies of the past. Concerns of expediency in such empowerment exercises are normally downplayed upon the weighing in of the benefits of the exercise.

People's motivations for buying securities on stock exchanges may be so that they can get a good return earned on a consistent basis [16]. For this, investors will choose fundamentally solid shares with significant growth potential [3]. The fear that such growth potential may be rendered nonexistent upon the indigenization of companies needs to be analyzed to see if it could be the most significant factor behind the low key financial performance of counters likely to be affected by the Act. Given the stock market is home to a variety of investor types [4], there is a need to analyze the general information effects (in this case the Act) on the main types of participants on any bourse.

To understand the two main groups of participants on the stock exchange, a summary of the behaviour of two speculator groups, that is, bulls and bears indicate that the two groups tend to be affected differently. Bulls, who normally make profits only if prices rise as anticipated [3, 16] are the most affected speculator group as invariably prices fall when enactment policies have deep rooted precedents of failures in previously implemented empowerment exercises (as in the Zimbabwean land redistribution exercise, for instance). It is difficult to get buoyancy and optimism in the stock market when market participants feel that the inefficiencies introduced in previous enactments or pronouncements have been given yet a fresh opportunity for expression.

Bears tend to benefit in the ZSE scenario as they are pessimistic and expect a decline in the securities' prices [2, 14, 16]. Bears' abilities to take "short" positions on securities by engaging in short sales tend to come in the form of engaging in bear raids so as to bring securities' prices down [2, 14, 16, 17]. In the wake of the Act, such raids are self inflicted on the ZSE. The Act ushered in a bearish market which is rather prolonged.

These two speculator groups tend to influence the price trends in markets exhibiting weak market efficiency such as the ZSE. The activities of the bears and bulls have a bearing on the ultimate slant of the share price trend line. An analysis of the performance of the counters on the ZSE after the coming into effect of the Act, however, seems to suggest the market participants did not respond favourably to the announcement as share prices tumbled. Assuming the ZSE is governed by the Efficient Market Hypothesis to a significant level, the information effect of the Act, as a concept, should be able to predict the likely trajectory of price performance.

The basic and, to a large extent, the overarching motivation for the purchase of a share by most investors who do not have ownership desires is to ultimately sell it at a higher price in the future. Current share prices, when determined by fundamental analysis, are premised on a logical and systematic approach to the estimation of future dividends and share prices [11]. Anticipations of future economic improvements should lead to share price improvements. Instructed by the efficient market hypothesis which was neatly broken down into three stages [8, 22], investors should be able to decipher the efficiency level of their market. The market efficiency hypothesis can be split into the following three sub hypotheses [16, 24]:

Stipulations of the weak form of the efficient market

Under this hypothesis, all historical price information is incorporated into the current share prices. Hence making share price movements a random walk [2] and uncontrollable by past trends [1]. This implies that technical analysis of past price movements as done by 'chartists' will statistically and significantly fail to give investors a competitive advantage [16]. Going by the stipulations of this hypothesis, investors on the ZSE would not necessarily be concerned about the past price movements as such concern will be unfounded as it would not inherently usher in new advantages or threats.

Dictates of the semi-strong form efficiency

Here, all published information is believed to be already included in the current share price. Consequently, detailed analysis of a company's published financial statements should not give a consistently superior return [1, 9]. This form of efficiency tends to be prevalent in developed countries' bourses to a greater extent and

studies have shown that some developing countries' bourses are now exhibiting this form of efficiency to a reasonable extent [1].

Strong form efficiency

The strong form of efficient markets says that current prices reflect all the available information which could be known. Thus, even insider and privileged information would not enable investors to regularly make a better than normal return [1, 2, 16]. Such financially ideal conditions for developing countries' bourses are generally regarded the preserve of highly developed bourses [1].

The above three hypotheses have been extensively tested and most studies [1, 2, 5, 9] have been unable to demonstrate consistent superior performance by investors, which would disprove the theory. Just because the intense level of analysis and high degree of competition among stock brokers, researchers, fund managers and other professional investors may make the stock markets of New York and London quite efficient, say at the semi-strong level, does not mean that all the other stock markets around the world automatically function in a similar fashion [1].

Theory is always applied statistically, that is, to large samples or to the market 'on average'. Because of the need for large scale validation for the acceptance or refutation of theory, it may be impossible to identify superior returns for a significant 'group' of investors though such returns may be achieved by a particular investor. Such particular investors' illustrations of excess return are normally dismissed by efficient market advocates as 'anecdotal and statistically irrelevant' [16]. Despite this assertion, investors are well able to 'read' the market's outlook by analyzing broad economy-wide shocks that are likely to have significant impacts on how general business is conducted. Since investors are intelligent, rational, objective and can use the available information to assess expected risk, investors on the ZSE would be deemed reasonable in their hesitant outlook on the performance of counters which are likely to be acquired by indigenous 'business' people given results of land redistribution, which did not produce the much anticipated empowerment of the majority of the populace [6].

2. Methods

The research employed a composite research methodology. The methodological approach hinged on desk analysis and a field survey. The survey centred on a descriptive method of inquiry in assessing the price performance of shares listed on the ZSE for the period January 2010 to April 2010 using Monday and Friday stock closing prices.

Since the largest ten counters by market capitalization comprised more than 60 percent of the cumulative total market capitalization for the period of study, the 20 largest counters' price performances were analyzed for two months prior to the enactment of the law and two months post enactment. The justification for using large capitalization counters lies in that large capitalization counters tend to form the bulk of the counters that are significantly traded in, hence more likely to show the impact of the Act than small capitalization counters.

Judgemental sampling was employed to stratify the counters into two groups, namely, those likely to be affected by the Act and those not likely to be affected by the Act. These two strata were further sub-stratified into three sectors, namely industrials, mining and fast moving consumer goods (FMCG) strata. The counters' close of trading day prices were analysed individually. Sector-defined individual counter covariances and correlations were assessed using IBM SPSS version 17 to find out if there were any statistical grounds to justify that price change effects generated could to be attributable to the passing of the Act.

Judgemental sampling was employed in coming up with the sampling frame. This ensured that those counters which would be affected and those which would not be affected were divided into two strata. On this sampling frame, simple random sampling was employed to come up with the final sample of counters from each stratum. First differences' correlations (price change correlations) were also analyzed for four counters (two from each sub strata, that is, the largest from each sub strata) to measure the strength of the correlation coefficients.

In addition, breadths of the market analyses were conducted as part of the desk analysis. Here, comparisons of the number of shares which advanced (movers) and those which declined (shakers) during the period of study were made to ascertain the market trend. Comparison of advances and declines is a means of measuring the dispersion or breadth of a general price rise or decline. The difference between the advances and declines is called the breadth of the market [16]. Since closing price movements covered exhibited strong movements on the first trading day and the last trading day of the week (with the rest of the week exhibiting subdued performance), this study analysed the breadth of the market through an analysis of the closing price movements of shares for the two days namely, Monday and Friday (the trading week's opening and closing days, respectively).

In addition, 50 questionnaires were administered. Ten questionnaires were administered to investment analysts, 10 went to stock brokers, 20 went to investors (day traders) and 10 went to stock broking firms' research heads. The questionnaires sought to find out from the respondents whether trading prices could have been affected by the Act. The questionnaires utilized a Likert scale with closed ended questions constituting 80 percent of the questionnaires and the remaining 20 percent being open ended questions. Follow up interviews were conducted to get further clarifications on issues which required in depth analysis. Both the questionnaires and interview schemes were tested for reliability and consistency by controlled administering to ten fellow independent academics and five investors separately prior to administration and conduction respectively. The responses from this pre-test group did not form part of the study's findings. Rather, they were used to refine the instruments. The corporate bodies' sub-stratification into two groups enabled the researcher to compare like with like. Such comparisons gave the researcher statistical confidence to isolate non-sector specific price movements, thereby reducing the chances of relying on spurious correlations. Sector specific variances were calculated and the effects of sector specific variances on correlations within each sector were also calculated. In addition, cross sector correlation coefficients were also computed. The influence of high in-sector variances on correlations was analysed. The researcher then computed cross-sector correlation coefficients of those counters likely to be affected by the Act with those that would not be affected by the Law.

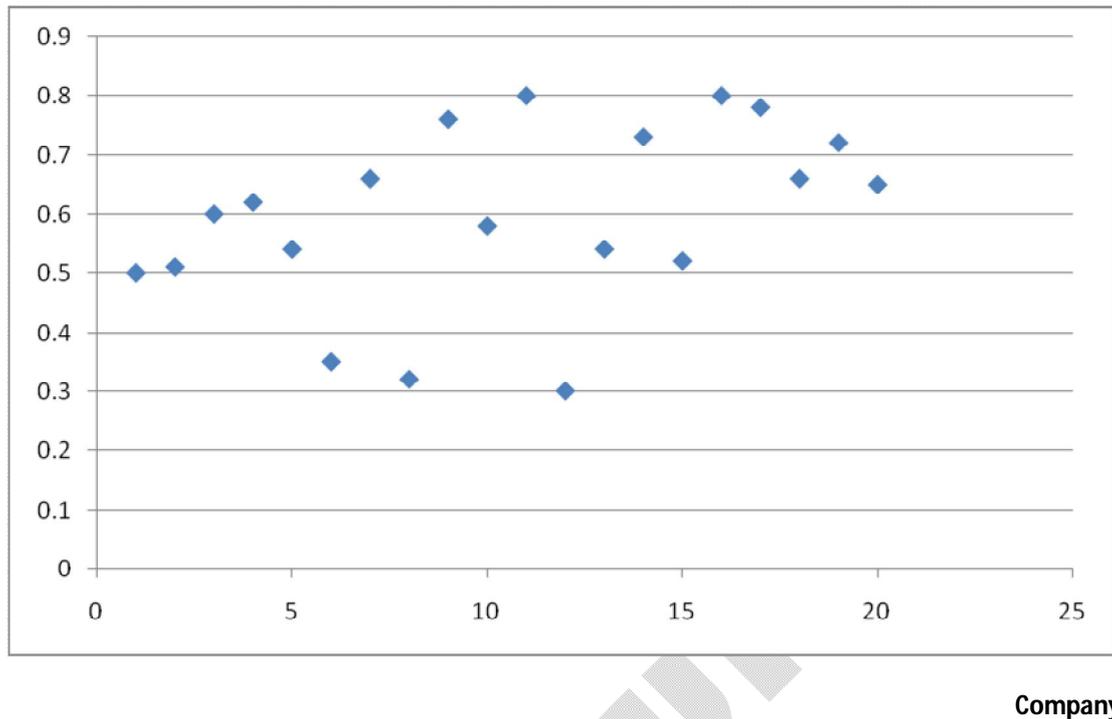
An oscillator which measured the convergence and divergence between two exponential moving averages was also employed. Two moving averages (MA) were analysed. These were those of the two largest counters: one being that of a counter which is likely to be affected adversely by the Act and the other for a counter which is not likely to be affected adversely. Short term exponential moving averages and long-term exponential MA were calculated using the closing price data. 12-day and 48-day exponential moving averages constitute a popular combination [16]. However, for this study, five-day exponential MA were taken as the short term exponential MA and 30-day exponential MA were taken as the long-term exponential MA and used in the analysis to enable the researcher to find oscillations over a shorter period of time as this research is concentrated over a particular event. The five days were chosen since they represent the weekly trading days and 30 days were chosen as they allowed for a concentrated analysis than would have been possible with a 45-day exponential MA. Such a lengthy period would have given a diluted analysis.

3. Results

The results are presented using mathematical indicators, a five-day exponential moving average for the 20 counters and breadth of the market analyses.

3.1. Correlation Coefficients

The correlation coefficient of the counters falling in the industrial sector ranged from 0.5 to 0.8. This indicates that the price movements exhibited a positive relational movement which ranged from weak to very strong correlation for the period under study. Those for fast moving consumer goods companies (FMCGs) ranged from 0.6 to 0.8 showing stronger correlations when compared to firms in the industrial sector. This could be due to the fact that despite the classifications of firms as falling within the industrial sector, there are pronounced differences in the product markets of this grouping's firms whereas the differences within the FMCGs is not as pronounced as that of the industrials. The mining sector had correlation coefficients ranging from 0.3 to 0.5. This relatively weak correlation could be a result of the different commodity prices on the world markets. The commodity prices determine the potential profitability of the companies within the sector. These price differentials seem to be the explanatory hand behind the performance of the counters as shown in Figure 1 below:

Figure 1: Scatter plot of the correlation coefficients of the starting and closing period.**Correlation Coefficients****3.2. Moving Average Convergence Divergence (MACD)**

The MACD line for the proxies of both the sub strata of counters (likely to be affected and those not likely to be affected) crossed the zero line from above.

3.3. Variances

The variances were significant for all counters. Two-tailed correlation in the prices of the shares for a significantly distinct quantum of counters selected from the two bipolar groups (those likely to be affected and those that will not be affected) at the beginning of the study period and that of the period's end show that there's a significant correlation between the start of period prices and end of period prices.

3.4. The Effects of Land Re-distribution

Ninety per cent of the respondents cited the lacklustre results of the land redistribution as the leading factor behind the subdued performance of shares listed on the local bourse which are likely to be affected by the Act. Ten per cent were of the view that the results of the land reform had no bearing on the perceived negativity of the announcement on the shares' performance.

3.5. Foreigners' Participation on the ZSE

Foreign investors were cited by a total of seventy five per cent of the respondents (excluding the day traders' group) as exhibiting resilience which is comparably higher than that exhibited by locals with regards to offloading their shareholding upon the passing of the Act. Upon the announcement of the Act prior to the law taking effect, locals were the most active participants offloading their shares in not only those counters likely to be affected, but all counters.

3.6. Expropriation of Foreigners' Private Resources

Sixty four per cent of the respondents indicated that as a consequence of what transpired during the land redistribution programme, local investors at least believe that the empowerment exercise may be regarded a

form of resource expropriation by politically connected locals. Twenty per cent of the respondents felt the empowerment exercise will not be a repeat of the land empowerment scenario. Sixteen per cent were undecided.

3.7. Empowerment of Those Who Are Not Disadvantaged

Eighty per cent of the respondents at least agreed that the empowerment drive will lead to a further enrichment of the privileged members of the society at the expense of the intended beneficiaries. Ten per cent felt the exercise will benefit the intended beneficiaries. Ten per cent were not sure about who would really benefit from the empowerment exercise as depicted in Figure 2 below:

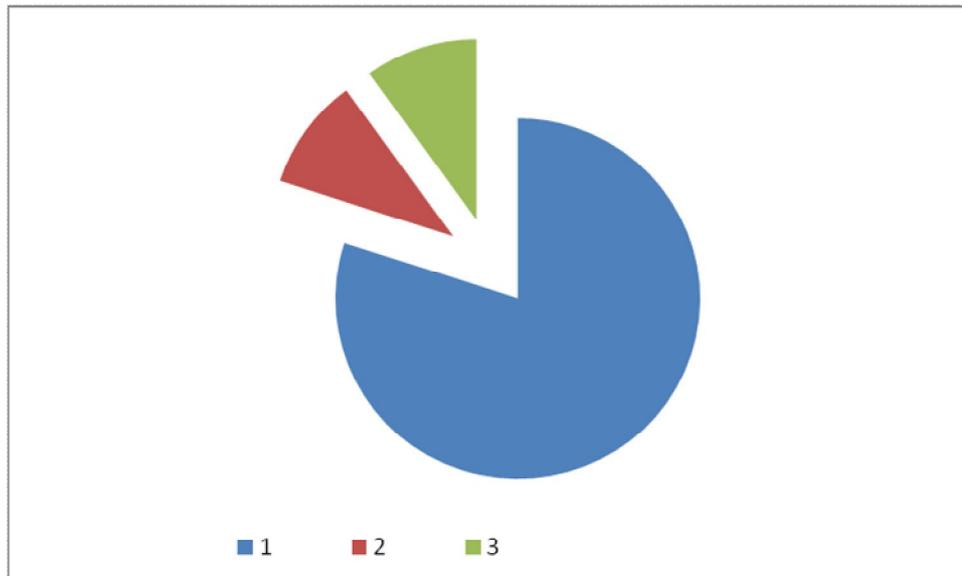


Figure 2: A pie chart showing the respondents' beliefs on who will benefit the most from empowerment.

1 represents those who felt that the beneficiaries will be the privileged members of society.

2 represents those who felt that the intended beneficiaries are the ones who will benefit.

3 represents those who were unsure.

4. Discussion

4.1. Comparison of Results with Technical Analysis (Elliot Wave Theory)

Theories which seek to explain the behaviour of the stock market are numerous. In technical analysis, one such theory is the Elliot Wave Theory [16]. The theory concluded that market price movements are quite random and follow a pattern of waves. A wave is a movement of the market price from one change in direction to the next change in direction [2, 10, 16]. The theory asserts that a movement in a particular direction can be represented by five distinct waves. Of these five waves, three waves are in the direction of the movements and are termed impulse waves. Two waves are against the direction of the movement and are referred to as the corrective waves or reaction waves. The findings suggest that the ZSE in the period studied had market price movements which did not concur with the Elliot Wave Theory in general and specifically for the trading period covered in the study.

4.2. Spurious Relationships

Many series that show very high correlations between two variables will show very low correlations between the first differences [15]. This result usually indicates a spurious relationship. On the other hand, if there is a

causal relationship between variables, we expect to find correlations between levels and also between first differences. This is indicative of this study's findings in that there were correlations between the levels and between the first differences which were more pronounced among the largest capitalization counters regardless of the sub-strata to which the counters belonged. This point was emphasized in an important paper [23]. The main thesis of the paper was that if two goods or services are in the same market their prices should be closely related. However, since most prices (inclusive of share prices), like many economic series, show trend-like movements over time [23]. (op cit.) wished to guard against being misled by spurious correlation. Thus, in addition to correlating price levels they correlated price changes. As an example, the prices of December 1982 silver futures on the New York Commodity Exchange and Chicago Board of Trade over a 30-day trading period gave a correlation coefficient of 0.997, and the price change gave a correlation coefficient of 0.956. In that case, the first difference correlations strongly reinforced the levels of correlations and supported the thesis of a single market for these goods. The use of first differences too, afforded this researcher the statistical ability to isolate any series which could be responding to essentially unrelated generating mechanisms which may display contemporaneous upward and downward movements and may be regarded as nonsense or spurious correlation [15].

4.3. Covariances

Covariances computed indicated a more pronounced positive covariance (here, the researcher focused on the start and end of the study period) in the FMCG sector when compared to the other sectors. The mining sector exhibited the most inconclusive covariance as some counters had relational movement (positive price covariance) yet others within the sector would indicate negative covariance. Again, this could be attributable to the inherent differences in the sectoral players' performance as defined by metals' prices despite the subsumed similarities emanating from the sweeping sector stratification.

4.4. Investors Motivation in Investing

Investors are astute and because they are driven by capital preservation, a fear of loss will drive them to offload their holding to salvage any form of value when they feel threatened with ultimately losing out. This finding is in line with what most researchers have found out irrespective of the country where such researches are conducted [17]. This rational behaviour may be the leading cause among local investors' exodus from the bourse in large numbers.

4.5. Foreign Investors' Behaviour Compared to Locals

The resilience exhibited by foreigners could be attributable to the fact that despite the perceived high country risk, shares on the ZSE are still highly under-priced. In addition to this, foreigners may not have directly experienced the consequence of empowerment exercises in the context of the Zimbabwean scenario, hence their continued faith that they may still reap bountifully regardless of the ownership composition structural changes.

4.6. General Performance of the Bourse

The study found out that performance on the bourse was generally subdued before and after the passing of the law. Prices were generally falling with the exception of a few high capitalization counters. The Act seems to have simply accelerated a downward price spiral which could be attributable to reduced liquidity riding on capacity underutilization since the adoption of the multiple currency system which replaced the Zimbabwe Dollar as legal tender in 2009.

All the counters analyzed recorded share price tumbles for the period under study when the general trend is analyzed. This makes it difficult to single out the Act as the sole driver of the downward share price spiral. However, since the wholesale share price tumble was significant a month before, during and after the pronouncement of the Act and given that the Act was the only significant announcement during the review period and backed with statistical results, (pair wise Granger causality tests' revelations) the researcher is statistically confident that it makes academic sense to attribute the significant price falls to the passing of the Act. This concurs with other researchers' findings that announcements normally trigger share price turbulence [2]. The investors' perception of the announcement determines the direction of the price movement. Positive

announcements lead to share price appreciations [5, 17, 24]. The converse is also true. This study found that the announcement was generally perceived by the local stock market participants as a negative announcement.

4.7. Misplaced Empowerment

The main reasons cited for this phenomenon is that the privileged members of society are more connected and may benefit from political affiliations which the disadvantaged may not be privy to [6]. Though the Act is meant to address the plight of the entire populace's disadvantaged group prior to the 18th of April 1980, so as to achieve sustainable development, due to political undertones and influence (as witnessed in the land redistribution exercise) the intended beneficiaries could be easily side-lined as the wording of the Act makes provision for those with at least some form of resources and not just a wholesale incorporation of all and sundry making up the definition of the 'previously disadvantaged' by the Act. A repeat of what transpired under the land redistribution exercise, it is feared, may also rear its ugly head resulting in value depletion to the entire bourse and not just the counters affected due to the contagion effect brought about by systematic shocks which generally affect the price performance of shares traded on small bourses such as the ZSE.

4.8. Periods When Announcements' Effects Are Most Pronounced

The price effects of announcements were found in this study to be most pronounced in the week when the significant announcement is made and thereafter compared to earlier periods leading to the date of the announcement. This could be attributable to the investors' beliefs that beyond a week prior to the announcement dynamism and uncertainty still have currency in the market and changes could still be introduced to counter the anticipated announcement. Once the announcement is made a sense of finality descends upon the market and market participants start re-aligning their portfolios in light of the announcement's potential effects on their wealth preservation and enhancement.

The biggest winners in a market with perceived skewed empowerment policies speculators were seen to be the investor group which benefit the most when compared to others. Speculators by nature are information mongers and they derive most of their gains from their superior knowledge when compared to the rest of the investors. This group tends to create and realign portfolios based on the most profitable and always move in line with the market, incorporating all the information they may get in their prompt decision making process.

4.9. Announcements' Effects on Different Sectors' Shares

Shares of companies' prices are not affected similarly by empowerment announcements. Despite the companies belonging to the same sector, when a significant announcement is made, the price movements will not necessarily be unidirectional. Some inherent trading factors such as the profitability levels within the companies themselves have a strong effect on the share price movements and hence share price direction [8].

5. Conclusion

5.1. Effects of Empowerment Legislations on Daily Closing Prices

This study concludes that empowerment policies can affect the daily closing prices of publicly listed shares. The direction of the effect is mainly dependent on the perception of the investors regarding the empowerment exercise. The effect is similar to what transpires when an announcement of a significant nature is impending. This is the reason why most bourses require firms to issue cautionary statements during such times.

5.2. Empowerment Policies' Ability to Empower People

Properly instituted economic empowerment policies have the ability to economically empower previously disadvantaged societal groups in most instances. Due to these investors' linkages among themselves (through empowerment groupings formed hitherto the adoption of these empowerment policies) patriotism is believed to provide yet another driving stimulus to strive for better performance if the right people are empowered and this can be regarded as a driver of sustainable development.

5.3. The Abilities of the Empowered to Drive Companies Forward

The study also concludes that there is no guarantee that those who benefit from the empowerment exercises are adequately prepared to drive the companies they acquire forward. The investment community is generally sceptical to endorse the policy due to the prevalent fear that those who may have benefited in the land redistribution exercise (yet another empowerment tool) and failed to add value may end up forming the bulk of the beneficiaries only to perpetuate and possibly perfect the economic damage they would have started under the land redistribution empowerment scheme.

5.4. Recommendations

5.4.1. Stage where Empowerment Policies Should be targeted for Sustainable Development

Instructed by the above findings and conclusions, the researcher recommends that empowerment programmes should not be instituted at the apex of any vibrant sector, for example, companies already listed on a bourse should be spared. Rather, if the previously disadvantaged groups are empowered to form their own companies and assisted until they can list those companies, the previously disadvantaged groups will be empowered fully. Such an approach will enable them to develop and grow their companies to sustainable levels as opposed to just being ushered in as privileged acquirers of already existing and prosperous companies without the requisite training in starting, managing and growing their own businesses.

5.4.2. Alternative Empowerment Drives for Sustainable Development

Assistance to the indigenous Zimbabweans may come in the form of, for example, favourable and selective treatment in the awarding of government tenders, relaxation of registration requirements for those desirous to form companies from the previously disadvantaged groupings, or any other preferential forms of treatment which would not throttle growth in the intended beneficiaries' desired respective sectors and hence the economy. This researcher believes that this would result in prompt and sustainable development which is superior to that which the present policy is likely to achieve.

5.5. Limitations

The Act cannot be regarded as the sole force with explanatory power on the movement of share prices during the study period. The perceived country risk may also explain some of the price movements. Given the inflationary history of Zimbabwe, any form of news that has the potential to alter the operating environment has the potential to trigger investor panic. In addition, the high liquidity levels attendant to the bourse prior to the passage of the law should not be taken as a general representation of the performance of all counters. Significant performance on the bourse is mainly concentrated on the ten largest counters (by market capitalization). Given the fact that performance on the bourse is usually dictated by less than twenty five per cent of the public counters, generalizing the results of this study may not be academically sound. Future research could extend the knowledge base on the Zimbabwe Stock Exchange and greater insights on the topic may be gained if future studies include firms that are not publicly listed. Moreover, the presentation of some of the analyzed data requires a platform that can accommodate a larger scale presentation, such as a chapter of a book. Due to length constraints, only those results that directly illuminate the topic are included in this paper.

Abbreviations

ZSE stands for the Zimbabwe Stock Exchange

USD represents the United States Dollar

RBZ is the abbreviation for the Reserve Bank of Zimbabwe

Competing Interests

Author declares that he has no competing interests.

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