KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

INSTITUTE OF DISTANCE LEARNING

POVERTY REDUCTION AMONG YOUNG ADULTS IN GHANA THROUGH COLLECTIVE INVESTMENT SCHEME

A CASE STUDY OF YOUNG ADULTS IN THE GA WEST DISTRICT

BY

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DECLARATION

I hereby declare that this submission is my own work towards the Commonwealth Executive Masters of Business Administration (CEMBA) and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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DEDICATION

This piece of work is dedicated to my lovely wife, Faustie, and children – Josephine and Herbert for their love, understanding, encouragement and support during the period of my study.

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LIST OF ABBREVIATIONS

PNDC	Provisional National Defence Council
CIS	Collective Investment Scheme
SEC	Securities Exchange Commission
GSE	Ghana Stock Exchange
MPT	Modern Portfolio Theory
EMH	Efficient Market Hypothesis
NYSE	New York Stock Exchange
CAPM	Capital Asset Portfolio Theory
DJIA	Dow Jones Industrial Average
FMI	Financial Market Intermediary
IOSCO	International Organisation of Securities Commission
IIAC	Investment Industry Association of Canada
JSDA	Japan Securities Dealers Association
BBA	British Bankers Association
AFMA	Austrian Financial Markets Association
EFFAS	European Federation of Financial Analysts Association
EFT	Exchange Traded Funds
UCITS	Undertakings for Collective Investment in Transferable Securities
HFC	Home Finance Company
REIT	Real Estate Investment Trust
DAMSEL	Databank Assets Management Services Limited
NTHC	National Trust Holding Company
SRO	Self Regulatory Organisation
AFDC	Aid to Families with Dependant Children
LEAP	Livelihood Empowerment Against Poverty
JSS	Junior Secondary School

ABSTRACT

Poverty has been with man for ages. Different writers have come up with different concepts on the subject. Indeed according to Samuelson and Nordhaus (2001), poverty is a condition in which people have inadequate incomes. Some people are of the view that poverty occurs as a result of social and economic conditions over which the poor have little control. People who have this view believe that government bears a responsibility to alleviate poverty – either by providing income to the poor or, by correcting the conditions which produce poverty.

Another view holds that poverty grows out of maladaptive individual behaviour – behaviour that is the responsibility of individuals and is properly cured by the poor themselves.

Eradication of poverty has engaged the attention of world leaders and international bodies such as the United Nations, International Monetary Fund, the World Bank, Non- Governmental Agencies and governments all over the world. Many modules have been proposed to alleviate poverty in the society. Some of these include fighting diseases such as HIV/AIDS, malaria, increasing food production, reduction in corruption, etc. All these are some of the solutions to poverty in the society on the macro level.

On the micro level, collective investment schemes is seen as one of the ways through which poverty could be alleviated. This study tries to find out how collective investment scheme can help reduce poverty among young adults in the Ga West District of Greater Accra Region.

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Wealth creation and poverty reduction have been proposed as effective antidotes to poverty. While the former may be described as preventive, the latter is more curative. Investment is a key player in wealth creation and one of the investment channels through which wealth can be created is Mutual Fund investment. What is the case for Mutual funds? Is it a potent alternative for wealth creation? Dennis (2007). Why do investors invest? The two main motivations for investors investing are firstly to save – in other words, the desire to pass money from the present to the future in anticipation of future cash needs, and secondly to increase wealth or simply put, to make money grow Goetzmann (1997). As there is a trade-off for the investor between these two motivations, the investor needs to assess the inherent risk of losing money against the expected returns of the investment. Bogle (1998) puts this into perspective when he says: *"But the reality of investing, as I see it, is that an extra percentage point of standard deviation (a rough proxy indeed for the elusive concept of risk) is meaningless, while an extra percentage point of long term-return is priceless."*

The Ghanaian economy has over the past three decades, gone through financial instability. Due to a myriad of factors many people have stayed away from putting their surplus financial resources into investments.

Some of the factors are political, economic, social, cultural, and lack of financial knowledge among the population.

Politically, the Provisional National Defence Council (PNDC) government, for instance, seized all fifty cedi notes in circulation in the early 1980's in the country. In those days, according to Business & Financial Times of May 21, 2007, bank accounts with credit balances in excess of fifty thousand cedis were frozen with all banks. The then military government, in its bid to get rid of corruption, "dealt with" so called wealthy people whose sources of wealth were in doubt. This led to people becoming psychologically scarred, and reluctant to lodge their money with the banks and maintain traceable bank accounts. Many Ghanaians therefore attempted to conceal their wealth, by avoiding the banks.

Economically, the rate of inflation between 1990 and 2001 was high compared to interest earned on deposits. The result was that investors had their capital eroded by the effects of inflation. Consequently, people appeared comfortable to keep their money either in foreign currencies or invest in commodities. Again the depreciation of the cedi against the major foreign currencies also resulted in people keeping their money in convertible currencies, mostly in the US Dollar and the British Pound Sterling.

Banks constantly faced the problem of not always able to provide prompt services at their counters, especially for simple transactions involving paying-in cash into an account and making cash withdrawals from an account. Because competition among the banks during that period was not keen, the few banks in operation were able to get their way through and exploited customers. A case in point was Barclays Bank of Ghana which closed most of their branches in the districts and operated only in the regional capitals and a few district capitals. Thereafter in the late 1990s, it became mandatory for customers' minimum balance not to go below GH¢ 100 (One hundred Ghana cedis). This was the time when the average teacher and public servant's net salary was not up to the new minimum balance requirement. As a result of this policy, many customers whose salaries were not up to the minimum balance or slightly higher than that threshold had no other option than to close their accounts with Barclays.

Socially, dependency ratio among Ghanaians, in general, was high as a result of the extended family system practised in Ghana. In effect, disposable income of many households kept on shrinking, thereby leaving little or none for investment purposes. For example, it was common to find a Ghanaian worker who took care of other family members (for example aged parents, nephews, nieces and siblings etc) other than the nuclear family.

Other social and cultural practices such as funerals, naming ceremonies, marriage ceremonies and fund raising activities in churches put pressure on the resources of the worker. A person who often declines invitation to attend such functions is seen as not sociable. To avoid the tag of being referred to as not sociable, some people grudgingly accept invitations to such functions. At such functions they are forced to give donations which were not budgeted for. In certain circumstances they pledge to make cash donations at a later date. This whittles away the resources of such people.

Again, a good number of Ghanaians are financially illiterates. To be financially literate means becoming aware of financial institutions and their product offerings, having an understanding of the way in which financial institutions operate, the terms they use, what they require from an individual who wishes to transact business with them and how the particular needs of an individual or community can be met by a financial institution. There are some people too, who even though have resources to enable them to invest, because they lack the knowledge, spend all their money on consumer goods.

Another factor which has discouraged people from transacting business with the financial institutions was the emergence of financial companies which were scams. Two of such companies were PYRAM and R5 (pyramid investment schemes). According to Boye (2005), people trooped to PYRAM and R5 as soon as they became aware of those investment opportunities. He continues "Very few, if any at all, raised questions about why the interest rates should be so high and whether such high rates can be sustained for ever. Indeed very well educated individuals put funds in the pyramid schemes." The level of patronage defied all logic. How those who took part assessed the risks involved in the investment, according to Boye, was not exactly clear. Within only a few months of their existence, PYRAM and R5 became the investment centre for many households in Accra and Kumasi where they were first established. Their offices were filled with large number of investors daily, with several of them waiting long hours in the sun to receive services. It came to a point where some traders invested their entire capital in that business. Unfortunately, these businesses could not sustain their operations and therefore collapsed. It was therefore not strange to realize the pain and agony many an investor went through when these two companies collapsed. The collapse of these businesses brought untold hardships on depositors to such an extent where some lost their entire life savings. The result was that some victims, as well as members of the general public, have not regained confidence from the shock they received upon the collapse of these ventures, and hence are always suspicious of activities of financial institutions.

It is against this background that the researcher would want to *find out the extent to which young adults in Ghana with particular reference to the Ga West District, know about investments generally and collective investment schemes specifically, and how the latter can help reduce poverty among young adults.*

Investment theory explains the way in which investors specify and measure risk and return. Broadly, investors are faced by systematic and unsystematic risk, which they deal with constructing portfolios invested in various asset classes in order to reduce risk, Marx, et al. (2003). Markowitz (1952) realized, however, that it was not enough to look at the expected risk and return of one stock. By investing in more than one stock, an investor could reap the benefits of diversification – chief among them, a reduction in the risk level of the portfolio, McClure (2006).

Collective investment schemes are pools of funds that are managed on behalf of investors by a professional money manager. The manager uses the money to buy stocks, bonds, or other securities according to specific objectives that have been established for the scheme. In return for putting money into these funds, the investor receives shares or units that represent his/her pro-rata share of the pool of fund assets. In return for administering the fund and managing its investment portfolio, the fund manager charges a fee based on the value of the fund's assets.

Collective investments schemes in Ghana take the form of either a Mutual Fund or Unit Trust. The characteristics of collective investment schemes in Ghana are provided for in the Securities' Industry (Amendment) Law 2000, Act 590 and are not necessarily the same as those of other jurisdictions. In the United States of America, the biggest investment market by far, these funds are known as mutual funds. Elsewhere in the world, such as the United Kingdom, they are still referred to as unit trusts. These funds are all per definition and for the purpose of this dissertation Collective Investment Schemes (CIS). The terms collective investment schemes, unit trusts and mutual funds will be used interchangeably throughout this dissertation as the context of this particular passage calls for.

Investments in collective schemes have seen a worldwide growth phenomenon during the latter part of the 20th century and continued into the new millennium. The African collective investment market is, however, still very small in relation to other industries worldwide. Interestingly enough, the biggest markets outside the United States are those in Luxemburg and France which, when combined, are bigger than half the size of the whole European unit trust market.

TABLE 1-1

Global investments in collective investment funds

	2001 US$bn	2006 US$bn
World	11,654	21,765
United States	6,975	10,414
Europe	3,168	7,744
Asia and Pacific	1,039	2,457
Africa	472	1,150

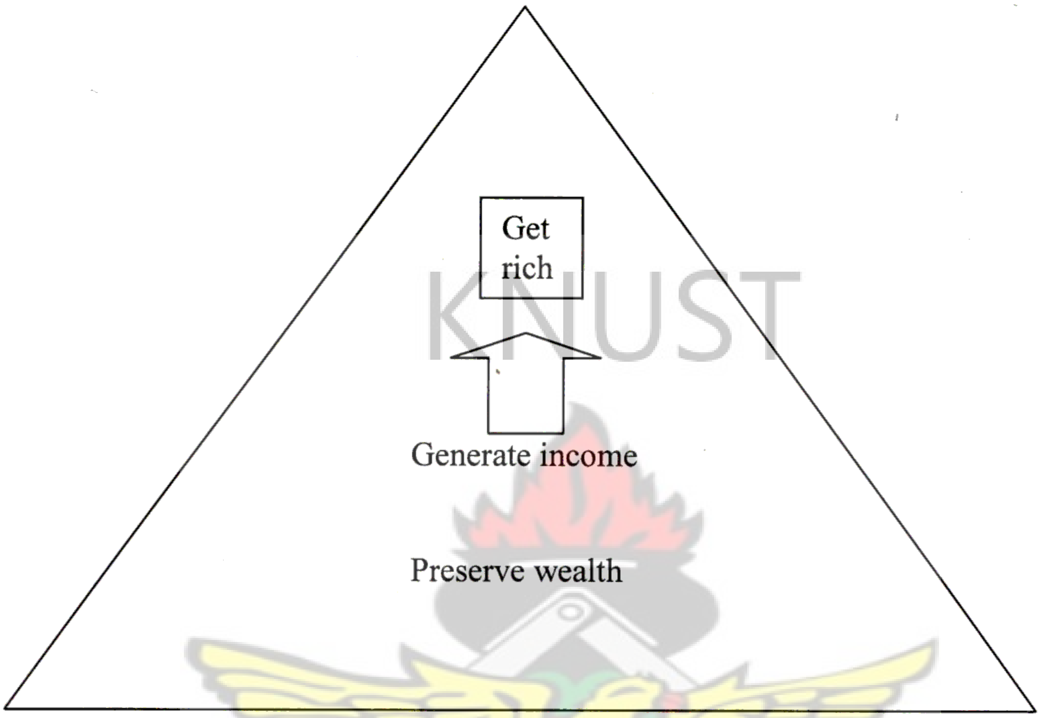
Source: Investment Company Institute (2007a)

What then are the main drivers behind an individual investor's behaviour? Maslow (1954) and Herzberg (1966) describe the needs of a human being as being in the form of a pyramid where the basic need for food and shelter first needs to be satisfied before the need for personal achievement, etc., can get attention. Shefrin and Statman (2000) also describe an average individual investor as first having basic needs, such as preserving wealth, before he wants to 'get rich'. Figure 1-1 below shows a pyramid depicting the typical individual investor's behaviour character. The investor therefore invests in an investment vehicle to satisfy a specific need. The basic need is for wealth creation and preservation.

A definition for investment according to Reilly and Brown (2003) is "… the current commitment of funds for a period of time in order to derive future payments that will compensate the investor for (1) the time the money is committed, (2) the expected rate of inflation, and (3) the uncertainty of the future payments".

FIGURE 1-1

Behaviour pyramid of the individual investor



Source: Adapted from Nofsinger (2005)

In order to satisfy these needs, the investor is dependent on an investment vehicle that should among other things, be able to maximize the investor's investible income-apportionment, asset class (securities, bonds, property, etc.), allocation and risk/return attribution. A Collective Investment Scheme (CIS) is such an investment vehicle.

1.2 STATEMENT OF THE PROBLEM

The popularity of Collective Investment Schemes as an investment vehicle in Ghana today lies in the fact that an individual investor can satisfy his investment needs through this *vehicle and thereby help improve his wealth creation and consequently reduce poverty.* In an informal study by the researcher, it was found out that there exist many people who are willing to commit part of their income to invest but are not sure how to go about it. There are other people who earn regular income and capable of saving part of their income for investment yet they do not have the motivation to do so. There are yet other group of people, who have the excess money to invest, are aware about various investment vehicles but do not have the time to approach investment companies to strike a deal. It is against this background that I decided to have an extensive research to find out why people are not willing to make money to meet investment needs, and also to find out if investment in Collective Investment Schemes can help reduce poverty among the teeming young adults in Ghana with particular reference to Ga West District of Greater Accra Region.

1.3 OBJECTIVES OF THE STUDY

The research objectives of this dissertation are to address the problem statement and try to answer the research questions as stated in the previous section. This has been done first by exploring the theory behind investment portfolio, and specifically the collective investment portfolio, to establish how wealth creation can be an antidote to poverty. This was done by means of literature review that researches and compares various popular models of investment theory, illustrates the dynamics of collective investments, and investigates the impact of intermediaries on investment decisions.

In summary the research objectives are:

i. To identify the extent to which collective investment scheme has gained popularity among Ghanaians

ii. To find out how mutual fund investment impact on the lives of investors, the community and the Ghanaian economy in general.

iii. To find out if mutual fund as an investment vehicle can be used as a poverty reduction tool.

1.4 RESEARCH QUESTIONS

The following guided the study:

1. What is investment?
2. What is poverty?
3. What are the available common investment vehicles?
4. Why mutual fund investment?
5. Why is there the need to set aside money for investment purposes?
6. How can somebody who is not a regular income earner undertake investment ventures?
7. Is there any relationship between investment and poverty reduction?
8. How can prospective investors be motivated to invest?

1.5 METHODOLOGY

Both primary and secondary sources of data were employed to collect data for the study. A sample population of two hundred and ten (210) respondents were used. Random sampling method was used to select thirty respondents, each from Amasaman, Pokuase, Taifa, Dome, Santamaria, Sowutuom, and Ablekuma. These seven areas were selected because they are a good representation of the population under study.

Structured questionnaire technique was employed to collect primary data.

Two companies engaged in mutual fund investments, namely Databank and Strategic African Securities were also involved in the study. Secondary data were obtained from these two companies. Other secondary data were also obtained from books, journals and newspapers that discuss investments in general, and mutual fund investments in particular. Data from Securities and Exchange Commission (SEC) as well as the Ghana Stock Exchange (GSE) were also relied upon.

A purposive sampling technique was used to select respondents. A total of two hundred and ten respondents were involved in this study.

1.6 RELEVANCE OF THE STUDY

The findings of the study are to create awareness of availability of investment vehicles through which people can pursue to create wealth and hence reduce poverty in the economy.

Without conscious efforts by the employed and even the unemployed alike, it would be difficult to get money to invest. The findings would help readers to cultivate the habit of creating surplus funds for investment purposes.

It would also be useful to investment managers to improve upon their services as it would help them know what investors and potential investors require from their managers.

1.7 SCOPE

The study was conducted in the Ga West District of the Greater Accra Region of Ghana. The study covered people between the age range of eighteen (18) and forty five (45) years. Ga West district was chosen because it inhabits people from varied backgrounds. Respondents from the formal and informal sectors can easily be accessed. Geographically, the district consist of urban and rural communities, therefore results from the study would show a true picture of what exist on the ground.

Again, the specified age bracket (18 to 45) is chosen because that range represents the active workforce; whose investments can cover relatively longer periods before attaining the compulsory retiring age of sixty (60) for Ghanaian workers.

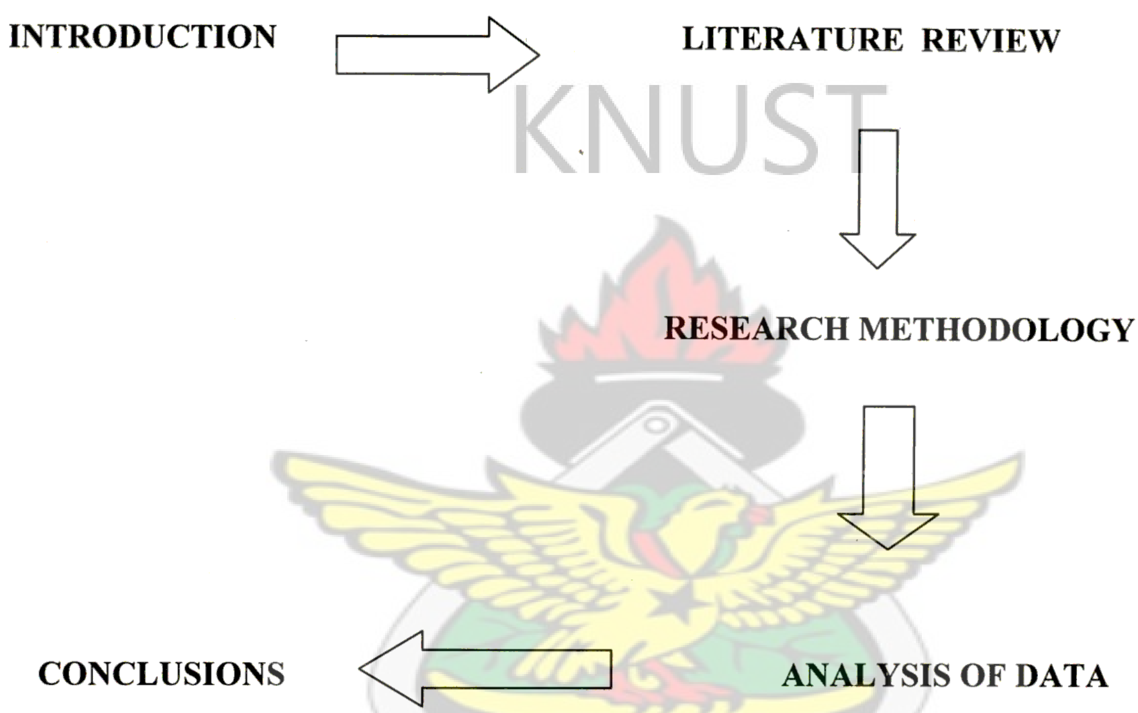
1.8 LIMITATIONS

Due to constraints on time and financial resources, the collection of the primary data was based on a survey of two hundred and ten individuals within Ga West District.

1.9 PLAN OF WORK IN PICTORIAL REPRESENTATION

FIGURE 1-3

Outline of the research methodology



Source of Diagram: Welman et al. (2005)

1.10 PLAN OF WORK IN WRITING

The dissertation is divided into five chapters. Chapter One introduced the work and looked at the background to the study, statement of the problem, objectives of the study, research questions, methodology, relevance of the study, scope, limitations and outlined the plan of work.

Several branches of literature are closely related to the subject of this work, including poverty reduction, investment in shares, mutual fund investments, wealth creation, and so forth. They were reviewed in Chapter Two. Chapter Three was devoted to the Methodology and Data collection. Chapter Four was restricted to the analysis of data collected. Finally, in Chapter Five the recommendations, suggestions and conclusions of this research have been discussed to enable policy makers, the acadamia, financial analysts, investors and every one to appreciate the impact of mutual fund investment on poverty reduction in the Ga West District.

CHAPTER 2

COLLECTIVE INVESTMENT SCHEME AND POVERTY REDUCTION: A REVIEW OF THE RELATED LITERATURE

2.1 INTRODUCTION

To understand the role of investment on poverty reduction, one needs to understand the underlying factors that bring about poverty. This chapter starts off with a theoretical background of the basic investment portfolio. Thereafter, a discussion on the theory of mutual funds, causes of poverty among people within the active population, the effects of poverty and how poverty could be reduced through collective investment scheme follows.

2.2 THE THEORY OF INVESTMENT

The theory of investment was explored by economic theorists such as Keynes (1936) and Hayek (1941), who focused on employment of capital and investment from a firm's point of view. Strictly speaking, investment is the change in capital stock during a period. One of the earliest investment theories, however, came from Irving Fisher in his "Nature of Capital and Income" (1906) and his later work "Theory of Interest" (1930). In his theory, although simplistic and open to a number of assumptions, he developed a basic investment frontier. This investment frontier indicates the optimum return for an investment over certain time periods, and would form the basis of the more popular investment frontier models we have today.

Investment decisions as explored by the economist mentioned above concerns the decision to construct a new plant, replace machinery, etc. mostly from a production point of view. To be able to finance an undertaking or to take advantage of any other investment opportunity, a firm needs cash. The firm can borrow from the bank or borrow publicly by issuing securities.

Securities are basically promises of future payment and they come in many forms. The most common securities are bonds and shares. Bonds are promised repayments of loans at a fixed rate of interest over time. A share is a fraction of ownership in a company and a claim to dividends. Most of these securities can be traded on a secondary market. Financial securities are characterized by the fact that they represent economic claims against future benefit, and that they have two important features, risk and return.

In this section we will concentrate on the financial decision from the point of view of the individual investor who trades in these securities. An individual investor is free to buy and sell financial assets. Most of the time this investor holds a portfolio consisting of a number of various types of securities. According to Goetzmann (1997), the following basic question should be answered in order to determine what an individual investor's portfolio should look like: *"What rate of return will investors demand to hold a risky security in their portfolio?"*. As mentioned in Chapter 1, the two main motivations for investors investing are to save and to increase wealth. Since there is a trade-off between these two motivations, the investor needs to assess the inherent risk of not losing any money against the expected return of the investment. The rate of return measures the growth in wealth and is expressed as a percentage over a specific time period.

One of the greatest allies for an investor seeking investment returns is time. This is because of what is known as the "eighth wonder of the world" – compounding. Compounding can make money grow substantially over a relatively short period of time. It refers to the growth of an investment from reinvesting any money that is earned. So, ones investment not only earns a return based on the original amount invested, but also on any return already paid.

Over a 69 year period from 1926 to 1995, a dollar invested in the SP500 grew to $889. Over the same period, a dollar invested in corporate bonds grew to $40 (Goetzmann, 1997). Similarly, GH¢100 invested in Databank's EPACK in October 1996 to June 2008 grew to GH¢9,417.98 (Databank Research, 2008). Although the returns over the corporate bonds were much lower, the risk of achieving the expected return over any period in this time was much lower, as the return curve was flatter, though fairly straight. The SP 500 yielded a far higher return, but may have yielded a negative return at some time within the period. The return curve would therefore be much more erratic. This puts the investor in front of the classical trade-off of risk versus return. The higher the risk the investor is prepared to take, the higher the return that he can expect from the investment will be. The margin an investor earns as the result of investing in a more risky investment, is called the risk premium.

Each investor has a certain risk appetite or risk tolerance. Both refer to the same behaviour, which indicates how much risk an investor is prepared to take for an expected return. To give the investor a broad risk-return profile within one portfolio, the portfolio manager needs to make capital allocation decisions which would determine how much of the overall portfolio is going to be invested in low-risk, low-return investment versus risky, high-return investments.

Bodie, et al. (1999) describes the investment process as consisting of two broad tasks. One task is security and market analysis, from which the risk and expected return attributes of the entire set of possible investment vehicles are assessed. The second task is the formation of an optimal portfolio of assets. This latter task is referred to as portfolio theory, which plays an integral part in the construction of collective investment portfolio and on which this dissertation is based.

The father of modern portfolio theory (MPT) was Harry Markowitz. One of the most important and influential economic theories dealing with finance and investment was developed by him and published under the title "Portfolio Selection" in the 1952 *Journal of Finance*. MPT says it is not enough to look at the expected risk and return of one particular stock. By investing in more than one stock, an investor can reap the benefits of diversification – chief among them, a reduction in the riskiness of the portfolio.

Markowitz (1959) also proposed that investors expect to be compensated for taking additional risks, and that an infinite number of 'efficient' portfolios exist along a curve defined by three variables: standard deviation, correlation coefficient and return. The coefficient frontier curve consists of portfolio with the maximum return for a given level of risk, or the minimum return for a given level of risk, or the minimum risk for a given level of return.

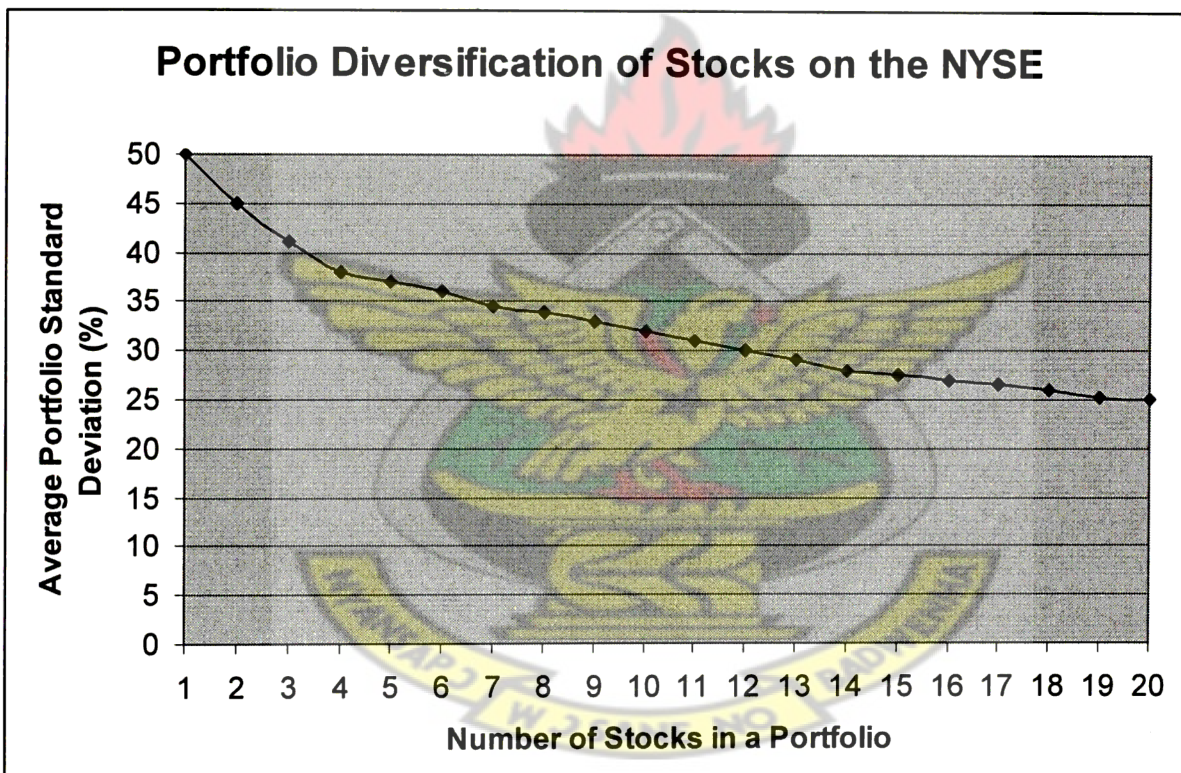
Sharpe (1981) however, believes that the market itself is the most efficient portfolio. Every investor is assumed to have the same information, and to analyze and process in the same way. Investors are assumed to be concerned only with risk and return. The market consists of a large number of rational, profit-seeking, risk-averting investors who compete freely with each other in estimating the future value of individual stocks. Any changes affecting a stock are quickly incorporated in its value.

When is a market efficient? According to Elton & Gruber (1995), a market is efficient when security prices fully reflect all available information. The Efficient Market Hypothesis (EMH) was first defined by Fama (1970). According to this hypothesis, the prices of shares on the stock market are the best available estimates of their real value because of the highly efficient pricing mechanism inherent in the stock market Ross, (2002). For the individual investor this would mean that he is better off by owning a proportionate slice of every financial asset available.

An efficient way to manage risk in a portfolio is therefore by way of diversification. To eliminate a firm (or security) specific risk, the number of individual stocks in a portfolio could be increased. This will result in a much lower impact on a portfolio if one, out of 20 stocks, should under perform versus one alone or one out of two.

Figure 2-1 below shows the decrease in risk (measured in standard deviation) as the number of stocks increases. This was an empirical study done by Statman (1987) in which he used data of stocks listed on the New York Stock Exchange (NYSE). His findings show that the ultimate number of stocks to negate risk in a portfolio is about 20.

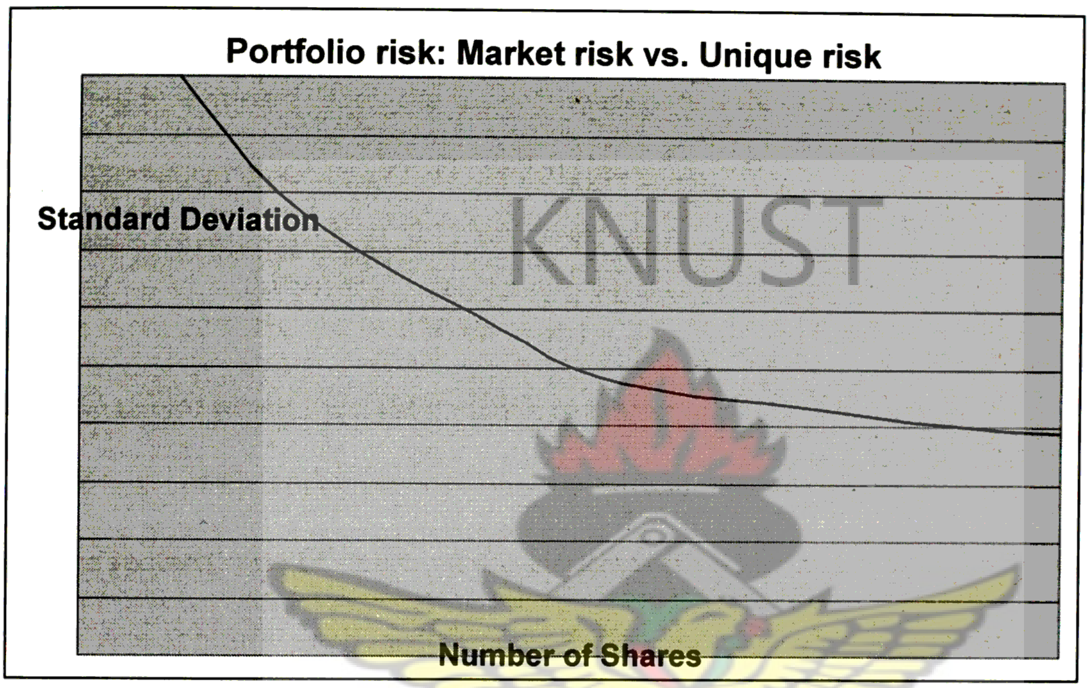
FIGURE 2-1



Source: Statman (1987)

It is however important to note that regardless of the number of stocks in your portfolio, risk cannot be completely eliminated. The risk that remains after extensive diversification is called market risk as indicated in Figure 2-2 below.

FIGURE 2-2



Source: Bodie, et al. (1999)

The total security risk of the portfolio can therefore be expressed as the sum of the unique risk, otherwise known as diversifiable risk, and market risk, otherwise known as non-diversifiable risk.

The Capital Asset Pricing Model (CAPM), which is now a centerpiece of modern financial economics, was developed through articles by Sharpe (1963), Lintner (1965) and Mossin (1966). This model gives us a precise prediction of the relationship that we should observe between the risk of an asset and its expected return. This relationship serves two vital functions. Firstly, it provides a benchmark rate of return for evaluating possible investments. Secondly, the model helps us to make an educated guess as to the expected return on assets that have not yet been traded in the market place. The CAPM is therefore a set of predictions concerning equilibrium between the returns on risky assets.

According to Gitman (1985), the CAPM links the relevant risk and returns for all assets. The mathematical equation of the CAPM is given as:

$\mathbf{K_j = R_F + b_j \times (k_m - R_F)}$, where

$\mathbf{K_j}$ = the required (expected) return on asset j

RF = the rate of return required on risk free asset

bj = the beta coefficient or index of non-diversifiable risk for asset j

$\mathbf{k_m}$ = the required rate of return on the market portfolio of assets that can be seen as the average rate of return on all assets.

Goetzmann (1997) argues that the CAPM theory can only be true if its assumptions are true. Amongst a long list of assumptions, the CAPM assume that the global market is in equilibrium and each investor holds a value-weighted portion of the world wealth portfolio. In the past 20 years, the legitimacy of the CAPM could not be verified or refuted. The spirit of CAPM seems, however, to be correct as it has had a profound impact on the investment world.

Reilly and Brown (2003) recognize that Markowitz's model is based on several assumptions and summarize it follows: "a single asset or portfolio of assets is considered to be efficient if no other asset or portfolio of assets offers higher expected return with the same (or lower) risk with the same (or higher) expected return." Although the CAPM will not fully withstand empirical test it is widely used because of the insight it offers and because its accuracy suffices for many important applications.

The mutual fund theorem generally relates the principle that investors follow a passive strategy of investments in a market index portfolio that is efficient. According to Bodie, et al. (1999), portfolio selection can be separated into two components, namely the creation of mutual funds by professional managers and the investors allocation of his complete portfolio between the mutual fund and risk-free asset.

The two mutual fund theorem stems from the the two-fund separation theorem, which states that investors who hold a number of risky assets and a riskless security should all hold the same mutual fund of risky assets. An investor's risk aversion affects only the proportions of wealth that he invests in the risky mutual fund and the riskless security. The allocation of wealth across the different risky assets does not depend on the investor's preferences. Cass and Stiglit (1970), and Merton(1973) are perhaps the most prominent works on this fundamental results.

Malkiel (1973) argued that, based on fundamental as well as technical analysis, it is impossible to outperform the market consistently on an efficient basis. He suggested that price movements are totally random and that investors should adopt a buy and hold strategy. However, this strategy ignores the risk associated with continuous investments in the market. There will always be a correlation between risk and return. The Dow Theory for example seeks to move into risk free treasuries when bear market is signalled, sufficiently reducing the risk associated with that portfolio.

2.3 MUTUAL FUND INVESTMENT

A mutual fund is an investment vehicle that gathers funds from like minded investors and invests in equities, bonds of your choice at a professional fee.

The principle of the mutual fund exposes the individual to the same risk profile as the other investors in the fund. The mutual fund is invested in a wide range of securities or assets. Smith (2007) argues that the common consensus is that a well-balanced portfolio with approximately twenty to thirty stocks diversifies away the maximum amount of market risk. Because a single mutual fund often contains five times that number of stocks; does that mean that one fund is enough? If not, how many mutual funds are optimal for your portfolio?

One can argue that equity investors buy a broad index fund and let time do its work. Investors seeking exposure to both stocks and bonds can get their desired asset allocation through the purchase of a single balanced fund. On the other hand the argument against a single mutual fund - McWhinney, (2006) proposes that a single fund would fail to provide adequate exposure to international investments. The argument here is that a global fund provides a little bit of everything, but not enough of anything. Added to this should be a large-cap domestic fund and a small-cap domestic fund. Two international funds, one from the developed markets and the second in the emerging markets, as well as a fixed-income fund, should bring the desired count to six funds.

Smith (2007) argues further that, while mutual funds are popular and attractive investments because they provide exposure to a number of stocks in a single investment vehicle, too much of a good thing can be a bad idea. Although there are hundreds of mutual fund providers offering thousands of funds, there is no magic number for the "right" number of mutual funds in a portfolio.

Investopedia (2005) also says owning a mutual fund that invests in 100 companies does not necessarily mean that you are at optimum diversification either. Many mutual fund holders also suffer from being over-diversified. Some funds, especially the larger ones, have so many assets (i.e. cash to invest) that they have to hold literally hundreds of stocks and, consequently, so does the investor. In some cases this makes it nearly impossible for the fund to outperform indexes - the whole reason for investing in the fund and paying the fund manager a management fee.

The common consensus is that a well-balanced portfolio with approximately twenty stocks diversifies away the maximum amount of market risk. Owning additional stocks takes away the potential of big gainers, significantly impacting your bottom line, as is the case with large mutual funds investing in hundreds of stocks. According to Investopedia

(2005), Warren Buffet said: "wide diversification is only required when investors do not understand what they are doing".

Each mutual fund has a specified investment policy which is described in the fund's prospectus or mandate, Bodie, et al.(1999). For example, money market funds hold short term, low-risk money market instruments such as bank acceptances, treasury bills and certificates of deposits, while bond portfolios will hold mostly government bonds and other mortgaged-backed securities.

Management companies manage a 'family' of mutual funds under one umbrella. This makes it easy for the investor to allocate assets across market sectors and to switch assets across funds while still benefiting from centralized record keeping. Some of the more important basic fund types are money market funds, fixed income funds, equity funds, asset allocation funds, index funds and specialized sector funds.

Investment company performance has been one of the most widely studied topics in all finance. According to Reilly and Brown (op. cit) there are two primary reasons for this:

i. these funds reflect the performance of professional money managers,
ii. funds' data have been available for a long time.

When Sharpe (1966) first evaluated the overall performances of mutual funds, he found out that only 32 percent of the funds outperformed the Dow Jones Industrial Average (DJIA). Comparing ranks of funds between the first and the second halves of the sample period led Sharpe to conclude that past performance was not the best predictor of future performance. He also concluded that the average mutual fund manager selected a portfolio at least as good as the DJIA, but after deducting the operating costs of the fund, most achieved net returns below those of the DJIA. Similar studies were done by Jensen (1968), Lehmann and Modest (1987), and Grinblatt & Titman (1993), all concerning the performances of mutual funds vs. relevant benchmarks.

Mutual fund managers inform potential investors about their intended investment strategy in the fund's prospectus. Malkiel (1995) and Bogle (op cit) found in earlier studies that the more aggressive the investment objectives of the funds were, the more the risk and returns increased and the more the likelihood was to outperform a benchmark. However, traditional fund objective categories fell out of favour because a fund's actual holdings may not necessarily represent the objective classification.

Subsequently the over all performance of mutual funds became measured through investment styles and performance persistence. Studies in this regard were performed by Brown and Goetzmann (1995) and Carhart (1997). These types of performance studies are of significance for the investor because it puts performance into perspective and, according to Reilly and Brown (op. cit) it helps the portfolio manager to add value for the investor in a mutual fund.

The portfolio manager determines your risk-return preferences and develops a portfolio that is consistent with them. He diversifies your portfolio to eliminate unsystematic risk, and maintains your portfolio diversification and desired risk class while allowing flexibility. He also attempts to achieve risk-adjusted performance that is superior to aggregate market performance, and administers the account, keep records, provide information and reinvest dividends.

Elton and Gruber (1995) agree that a mutual fund provides a reasonable alternative for a small investor. However, they also ask if there are characteristics of mutual funds that are associated with superior performance. Apart from the sales charges (load vs. no-load funds), there are also other variables to consider. This includes turnover, ratio of expenses to assets and fund size. They could all have adverse effects on the alpha return of a fund.

Bogle (1999) describes the task of investment as follows: *"The central task of investing is to realize the highest possible portion of the return earned in the financial asset class in which you invest – recognizing, and accepting, that that portion will be less than 100 percent."* Hereby he urges investors to recognize the importance of the cost of investing and the impact it has on the return of a portfolio.

Bogle further promotes the principle of simplicity and recommends individual investors to rely on ordinary human virtues such as common sense, thrift, realistic expectations, patience and perseverance. He then gives the following rules for an individual investor to help make intelligent fund selections. Select low-cost funds, consider carefully the added cost of advice, do not overrate past fund performance, use past performance to determine consistency and risk, beware of stars, beware of asset size, don't own too many funds, and buy your fund portfolio – and hold it.

This brings us to another important link in the value chain, the financial market intermediary (FMI). Mamaysky and Spiegel (2001) explored the fact that FMIs acted on behalf of their investors and the potential impact it may have on trading styles and asset prices. The fact that mutual funds outnumber traded securities (at least in the US market) creates new investment families that offer a varied set of potential trading strategies. This implies that new funds added to individual portfolios do not necessarily reduce volatility. However, the FMI is not endowed with its own utility function, but only acts on orders from the individual investor.

Bednarczyk and Eichler (2002), however, disagree with Mamaysky and Spiegel, and argue that a principal – agency conflict exists between the investor and the mutual fund manager. They argue that both are aiming to maximize individual wealth, which does not lead to discrepancies in investment strategies. It is in the fund manager's interest to maximize fund size which, in turn, negatively impact fund returns. They suggest that the maximum fund size could be in the region of $1.6bn - $2.0bn.

Another area where the fund manager may negatively impact investor expectations is performance fees. This is to distinguish between so-called "beta-grazers" who look to increase fund sizes as described above and so increase fixed fee income. "Alpha-hunters", on the other hand, look for out performance and expects to be paid for it. The individual investor may not agree with excessive fees and the investment manager may take undue risk to attain that out-performance, Harris (2007).

According to Spatt (2006), the Chief Economist of the US Securities and Exchange Commission's (SEC) Office of Economic Analysis, there is the existence of the conflicts as described above. However, they also found that existing regulation requires an advisor not to deviate from an investor's reasonable expectation about a fund's risk profile. There are also enough risk and return information made available to the investor to help mitigate this conflict. The competition in the mutual fund industry is strong, however, with over 600 organizations offering mutual funds in the United States. Three quarters of the assets are invested in funds with costs that are below average and returns (over a 10 year period) that are above average (Investment Company Institute, 2006b).

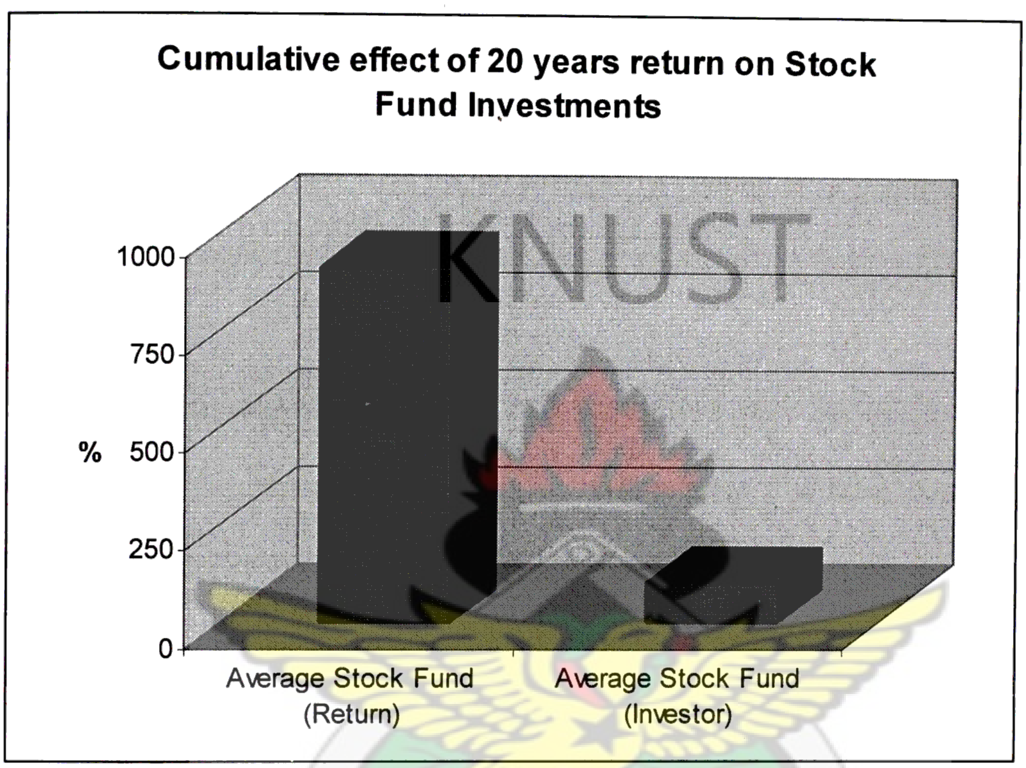
It therefore concludes that, over time, investors' behaviour determines the patterns of mutual fund investment and, consequently, investment strategy and market pricing. What is it then that influences investor behaviour? Abbey (2007) simply says *"A happy investor is a successful one."* He says further that how investors behave has a far bigger impact on success than how markets behave. He refers to the Dalbar studies in the US which found that investors lost up to 77% of the available return in the market due to switching in and out of funds.

In Figure 2-3 below, the bar graph named "Average Stock Fund Investor" with a value of 107% relates to the actual returns the individual investor earned on his own portfolio over the 20 year period. The bar graph named "Average Stock Fund Return" with a value of

915% relates to return that are actually available in the market without switching from fund to fund.

FIGURE 2-3

Cumulative effects of 20 years return on Stock Fund Investment



Source: Dalbar, Inc. (2005)

In its research, Dalbar, Inc. (2005) states some factors influencing investor behaviour. Investors typically invest when markets rise and then disinvest when markets starts falling. By effectively entering late and realizing loses, the investor does not receive the benefit from long term investment by riding the lows and highs. Although up to 90% of the people may be optimistic at a certain time, the law of averages states that 50% of those will be wrong. Thus very few people will expect the inevitable when it actually occurs.

Funds or managers that achieve exceptional returns over a short period of time are perceived to be a pattern that does not actually exist. People say they start to save later for various reasons, while actually missing a good market growth period. When people are afraid to lose capital they keep their savings in cash. The reality however is that in a low-interest environment they can lose more income by being in a taxable low-return investment than a non-taxable average investment.

People get more distressed by the prospect of losing than they get excited by that of winning. They will therefore rather cash in on investments that have done well than investments that made losses. People also tend to pick themselves a reference point such as the price at which they invested, thereby ignoring the intrinsic value of the investment. They have preconceived ideas and will search for the 10% confirmation of their view whilst ignoring any views that contradict theirs.

2.4 INTERNATIONAL TRENDS

It is generally recognized that the first closed-end investment company was formed in 1822 by King William I of the Netherlands. Thereafter an investment trust was launched in 1849 in Switzerland, followed by similar vehicles in Scotland in 1880. This blew over to the United States in the 1890's. The first (open-ended) mutual fund as we know today was the Massachusetts Investor's Trust established in Boston in 1924.

The worldwide distribution of collective investment funds are shown in Table 2-1 below:

TABLE 2-1

Worldwide distribution of mutual funds

	Number of funds	Assets ($million)
Europe	32,800	7,744,204
Americas	14,477	11,486,171
Asia Pacific	13,479	2,456,511
Africa	750	78,026
World	**61,506**	**21,764,912**

Source: Investment Company Institute (2007)

The United States mutual fund industry ($10,413,617 million) alone makes up 50% of the world's total investments in collective investment schemes. It is therefore significant to concentrate on the United States mutual fund industry to determine worldwide trends in the industry. The other countries having significant collective investment industries in terms of assets under management are Luxemburg ($2,188,278 million), France ($1,769,258 million), Australia ($864,254 million) and the United Kingdom ($786,501 million).

One of the main reasons for the development of collective investment schemes was to give affordable access to the investment market for the 'man in the street'. As Woodard

(2007) puts it: *"Mutual funds are one of the best investments ever created, because they are very cost efficient, and very easy to invest in."* Woodard further explains that a mutual fund is simply a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The fund manager is responsible for investing the pooled money into specific securities. Investors can therefore acquire stocks or bonds with much lower trading costs than if they tried to do it on their own. The biggest advantage to mutual funds is diversification.

Another reason to recognize the intermediary in the creation of wealth for the individual investor is to look at the development of collective investments up to now. This would indicate that the intermediary listened to the needs of the investor and provided him with products to suit his personal needs through a range of economic cycles, investment classes, cost structures, life cycles, etc. A quick look at the development of collective investments over the years confirms this fact. After the initial closed-ended type of investment trusts, the open-ended schemes developed to give access to a broader base of investors.

Because of the obvious benefits of diversification, the financial advisor started to make a study of the offerings in the market and provided the investor with a broader spectrum of investment options relating to the client's specific risk profile. Nowadays the advisor is regulated, ensuring sound advice in the client's best interest. The International Organization of Securities Commission (IOSCO) issued a consultation report in February 2007 entitled *"Market Intermediary Management of Conflicts that Arise in Securities*

Offerings". This report acknowledges the existence of conflict between intermediary offerings and best interest of clients. It stated a wide range of issues concerning potential conflict areas/situations and invited its members to comment.

The reaction was overwhelming and included the Investment Industry Association of Canada (IIAC), Japan Securities Dealers Association (JSDA), British Bankers Association (BBA), Australian Financial Markets Association (AFMA), European Federation of Financial Analysts Association (EFFAS), etc. These comments indicated that considerable progress has been made with regulating the intermediary environment in investment management in these countries.

As the effect of costs on the investor's return became apparent, no-load and index-type funds were introduced. Access to new classes was also given, e.g. money market funds and hedge funds. The major growth area is currently in Exchange Traded Funds (ETFs). According to Bogle (2006), the growth of ETFs is an *entrepreneur's* dream come true. They offer the excitement of a new idea, massive publicity, and the marketing flexibility of the fund industry's asset gatherers to focus on whatever sectors are hot and whatever strategies have paid off in the recent past, all the better to attract the capital of performance-hungry investors. Not only do ETFs generate soaring assets and soaring fees to the managers, but active trading in EFT shares also generates heavy sales commission for brokers.

In recent years, the flood of assets into ETFs has approached a stampede. ETFs have grown to be a huge part - $340 billion of the $900 billion index mutual fund asset base –

a 38% share, up from just 9% as 2000 began and only 3% a decade ago. Lydon (2007) predicts an even more exciting outlook for ETFs, predicting the worldwide expansion of ETFs to emerging markets, the retirement market and the inevitable bear market.

In Europe the Collective Investment scene has been dominated by UCITS (Undertakings for Collective Investment in Transferable Securities). UCITS are a set of European Union directives that aim to allow collective investment schemes to operate freely throughout the EU on the basis of a single authorization from one member state. A collective investment fund may apply for UCITS status in order to allow EU-wide marketing. The concept is to create a single market in transferable securities across the EU. With a larger market, the economies of scale will reduce costs for investment managers, which can be passed on to consumers.

2.5 THE COLLECTIVE INVESTMENT SCHEME (CIS) INDUSTRY IN GHANA

From the humble beginnings in 1991 when the HFC Unit Trust was established by Home Finance Company Limited through Legislative Instrument L.I. 1516 of 1991, the CIS industry has relatively grown to a massive industry, ending December 2007 with eleven (11) funds in existence. The second fund to be established, the HFC REIT also by Home Finance Company Limited, was approved by the Bank of Ghana acting for the Securities and Exchange Commission (SEC) in 1995. Both schemes were unit trust funds.

The third CIS company and first mutual fund company was started with the introduction of Epack by Databank Assets Management Services Limited (DAMSEL), a subsidiary of Databank Group. Databank was itself incorporated in April 1990, the same year in which the Ghana Stock Exchange was established. The focus of Databank then was on research, the compilation and collation of research data for the financial sector and the development of the capital market in general.

Gradual awareness of the benefits of collective investments as an investment vehicle has led to more and more individuals as well as institutions in Ghana taking note and starting to invest in it. For instance, from a modest beginning of an initial GH¢25 from five people in 1996, EPACK has grown to over GH¢108.54 million and over 65,000 investors currently. EPACK is one of the leading pan African mutual funds with investments in eleven regulated markets in Africa including Ghana, Nigeria, South Africa, Kenya, Botswana, Morocco, Tanzania, Egypt, Zambia, Mauritius and Malawi. As of 31st December 2006, EPACK had 41,995 shareholders with a net asset value of GH¢ 38,290,000. For the same period in 2007, the number of shareholders shot up to 60,533 with a net assets valued at GH¢ 86,051,435.75. This represents a 44.14% increase in number of shareholders and 124.74% increase in net asset value.

TABLE 2-2

Funds under Management of Collective Investment Schemes - 2007

SCHEME	PROMOTER	NO. OF UNIT/ SHAREHOLDERS	NET ASSET VALUE (GHC)	FUNDS MOBLIZED IN 2007 (GHC)	MARKET SHARE (%)
SAS	Strategic African Securities	1,051	535,119	497,568	0.43
Anidaso	New Generation Invest. Ltd	727	304,103	118,939	0.25
Mfund	Databank	14,884	14,900,000	13,600,000	12.07
Campus Mutual Fund	SDC Investments	1,054	165,098	112,578	0.13
Epack	Databank	60,533	86,051,436	32,871,406	69.71
Balanced Fund	Databank	2,885	1,459,379	1,459,379	1.18
Horizon Fund	NTHC Ltd	1,527	725,728	9,192	0.59
HFC UnitTrust	HFC Bank	13,509	14,865,781	10,458,915	12.04
HFC REIT	HFC Bank	188	1,404,940	482	1.14
HFC Equity Fund	HFC Bank	1,067	950,872	342,135	0.77
Gold Fund	Gold Coast Securities	1,742	2,075,291	359,528	1.68
Total		**99,167**	**123,437,747**	**59,830,122**	**100.00**

Source: SEC Annual Report 2007

Under the Securities Industry (Amendment) Act, 2000, Act 590 and Mutual Funds and Unit Trusts Regulations, 2001, LI 1695, collective investment schemes take the form of either a Mutual Fund or a Unit Trust. This means that the Law has combined both the British and the American systems of collective investment scheme. The objectives remain the same. However, the only difference between the two is in the form of ownership or corporate structure. Mutual funds in Ghana are organized by corporate entities registered under the Companies Code. In case of winding up operation, it must be under the provisions of the Companies Code.

By the end of 2007, eleven (11) collective investment schemes had been licensed to operate by the Securities and Exchange Commission as compared to ten (10) in 2006.

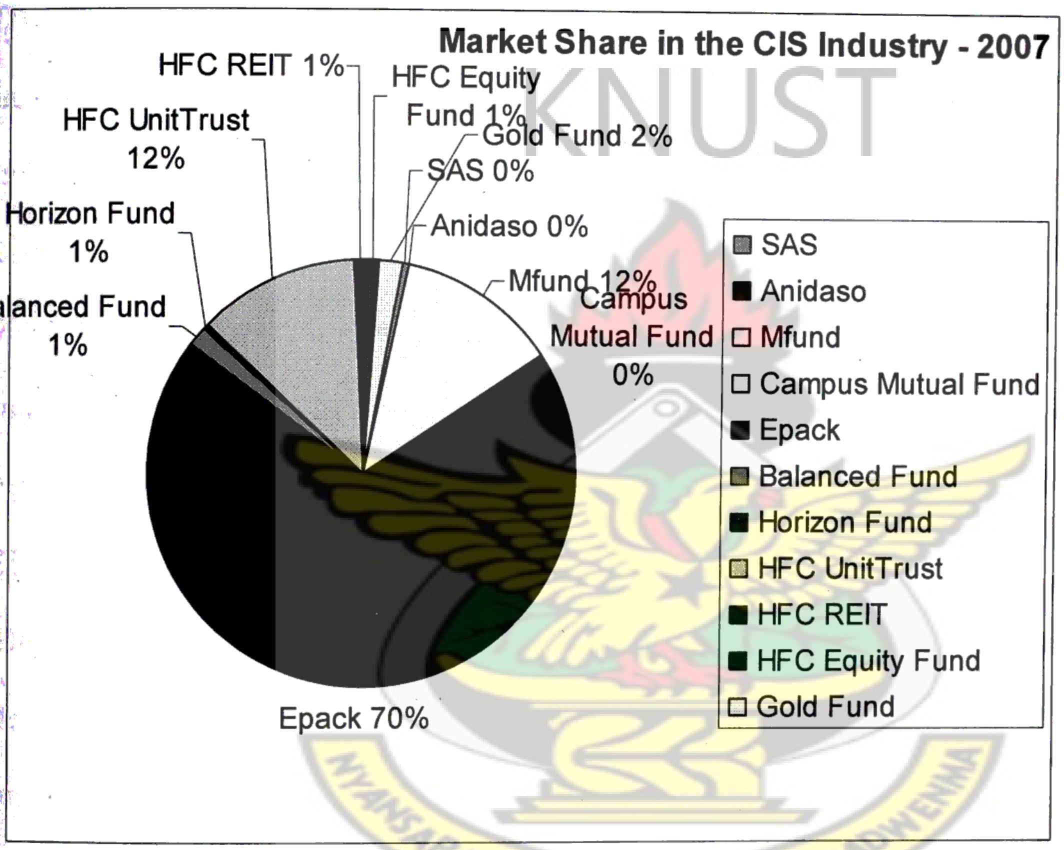
They comprised seven (7) mutual funds and four (4) unit trust schemes. The four unit trust schemes are: HFC Unit Trust, HFC Equity Trust, HFC Real Estate Investment Trust (HFC REIT) and Gold Fund Unit Trust. The rest are mutual fund schemes.

The industry showed significant growth in asset base as it is gradually gaining popularity among various sections of the Ghanaian society, particularly those living in urban areas such as Accra. With appreciable returns on various financial assets such as equities and money market instruments, total net asset value of the entire industry grew by 82.41% over that of 2006 (GH¢67,670,000.00). Total amount of new funds mobilized by the licensed firms shot up from GH¢27,523,000 in 2006 to GH¢59,830,122 in 2007, an increase of 117.4%. The total number of new investors who joined the scheme went up by 37.8% from 71,960 to 99,167 (this includes both individual and institutional investors)

2.6 MARKET SHARE

Databank's Epack Investment Fund continues to dominate the collective investment scheme market in all spheres. It holds almost 70.0% of total net assets of the entire industry and 61.0% of the industry's customer base (share/unit holders). It also mobilized 55.0% of total funds mobilized by the industry in 2007.

FIGURE 2-4



Source: SEC Annual Report 2007

The MFund, the only money market mutual fund to be licensed by the Securities and Exchange Commission, which is also in the stable of Databank, moved from the third position in 2006 to become the second largest collective investment scheme in Ghana with 12.0% of the industry's total net assets under its management. It also controls 15.0% of the sector's customer base. The first collective investment scheme in Ghana, HFC Unit Trust, dropped from the second position to third largest scheme with 12.0% of total net assets under management. It has 13.6% of the industry's customer base. Figure 2-4 above provides details on the rest of the industry players.

2.7 PERFORMANCE OF FUNDS IN THE INDUSTRY - 2007

Databank Epack Investments Fund did not only continue to outperform the stock market in percentage points, but was also able to provide improved real return over rate of inflation. The fund made an annual return of 48.61% compared to 32.0% recorded in 2006. Anidaso Mutual Fund was the next best performer with 35.99% in annualised yield, followed by HFC Equity Fund (34.19%). Gold Coast Securities Gold Fund also improved from 22.36% in annualized yield in 2006 to 28.45% in 2007. The Fortune Fund also performed better than the previous year with an annual year-to-date return of 23.03%.

The annual return on the only money market fund in the country, MFund, however declined from 14.47% in 2006 to 11.99% in 2007. This was due to the general decline in interest rates of money market instruments in the financial market recorded in 2007. As table 2-4 below indicates, the equity based mutual funds and unit trusts did far better than the previous year because of the upward movement in the equity index-GSE All-Share index.Overall, the NTHC's Horizon Fund continued to be the worst performer on the market for two successive years running. It made an annual return of only 1.00% slightly up from 0.50% recorded in 2006. This was far below the rate of inflation

(12.75%) and stock market index performance gain (31.84%). Table 2-3 below provides detailed description of the performance of the collective investment schemes in the country in 2007.

TABLE 2-3

Performance of Collective Investment Schemes in 2007

Scheme	Type of Scheme	Share of Total Net Assets %	Share of Customer Base %	Share of Total Amt Raised in 2007 %	Performance (Annual yield/return) 2007 %	Performance (Annual yield/return) 2006 %
Epack	Equity Fund	69.8	61	56	48.61	32
MFund	Money Market Fund	12.1	15	22.7	11.99	14.47
HFC Unit Trust	Balanced Fund	12	13.6	17.5	12.75	8.7
Gold Fund	Equity Fund	1.7	1.8	0.6	28.45	22.36
Databank's Balanced Fund	Balanced Fund	1.2	3	2.4	N/A*	N/A*
HFC REIT	Real Estate Fund	1.1	0.2	0	17.5	2.39
HFC Equity Fund	Equity Fund	0.8	1.1	0.6	34.19	12.46
Horizon Fund	Equity Fund	0.6	1.5	0	1	0.5
Fortune Fund	Equity Fund	0.4	1.1	0.8	23.03	9.7
Anidaso Mutual Fund	Equity Fund	0.2	0.7	0.2	35.99	11.7
Campus Mutual Fund	Equity Fund	0.1	1.1	0.2	N/A*	N/A*

*N/A Not Available

Source: SEC Annual Report 2007

2.8 HOW COLLECTIVE INVESTMENT SCHEMES ARE REGULATED

All securities in Ghana are subject to securities laws that are administered and are enforced by the Securities and Exchange Commission (SEC). The securities laws regulate collective investment schemes in four basic ways:

- Through Registration Requirements. Every person who establishes a scheme or manages the investment portfolio of a scheme must be registered (licensed) by the Commission. Those who sell the shares/units are registered as dealers. Those who make investment decisions for collective investment schemes are registered as advisors. The registration requirements enable the Commission to ensure that each operator, dealer, or advisor has the basic qualifications required to act on behalf of investors. Registration is a continuous process, and thus subject to periodic renewal in order to ascertain the continued suitability of registrants.

- Through Prospectus Requirement. Every scheme that intends to sell securities to the public must first file a prospectus with the Commission and must give a summary disclosure document to each purchaser. The information contained in these documents is intended to allow investors and their financial advisors to make prudent and informed investment decisions. The mutual fund company or the unit trust manager is accountable under the law for the statements made in the prospectus. Once a fund has filed a prospectus it is also obliged to provide investors with financial statements and other important information on a regular basis.

- Through Regulations on Fund Operations and Sales conduct. The Securities and Exchange Commission has also established regulations that govern investment and marketing practices, the way in which fund assets must be held and the types of incentives that can be paid to those who manage or sell the funds.

Many dealers who will sell shares/units of funds also will also be members of the Ghana Stock Exchange (GSE) which is the industry's Self-Regulatory Organisation (SRO) and both they and their employees are subject to the rules, by-laws and policies that are established by the GSE.

- Through Surveillance and Monitoring. The Commission controls and supervises the activities of registrants in collective investment schemes with a view of ensuring that they maintain proper standards of conduct as an acceptable practice.

2.9 POVERTY – THE ILLUSIVE CONCEPT

In attempting to solve a social problem such as poverty, Sloman (1991) suggests, "it is normal for the policy-making body to adopt the following four-stage approach.

- The problem is defined.
- The problem is measured.
- The problem's causes are identified.
- Alternative policies are considered to cure the problem".

The importance of defining the problem of poverty correctly, suggests Sloman (op cit), is that it determines the subsequent stages: the number of poor, possible causes of poverty and ways of tackling the problem. According to Samuelson and Nordhaus (2001), the word "poverty" means different things to different people. Clearly, poverty is a condition in which people have inadequate incomes, but it is hard to draw an exact line between the poor and the non-poor. Economists have therefore devised certain techniques which provide the official definition of poverty.

Poverty was officially defined in the 1960s in the United States as an income insufficient to buy basic food, clothing, shelter and other necessities. This was calculated from family budgets and double-checked by examining the fraction of incomes that was spent on food. Since that time, the poverty budget has been updated by the government's consumer price index to reflect changes in the cost of living. According to the standard definition, the subsistence cost of living for a family of four was $16,800 in 1998. This figure represents the "poverty line" or demarcation between poor and non poor families. The poverty line also varies by family size.

Poverty may affect individuals or groups, and is not confined to the developing nations. Poverty in developed countries is manifest in set of social problems including homelessness and the persistence of "ghetto" housing clusters.

Poverty, according to Campbell and Stanley (2005), is a condition in which a person or a family does not have the means to satisfy basic needs for food, clothing, shelter and transportation. The means include currently earned income, transfer payments, past savings, and property owned. The basic needs have many determinants, including family size and health and age of its members. Corbett (2007) views poverty as a condition of having insufficient resources or income. In its most extreme form, poverty is a lack of basic human needs, such as adequate and nutritious food, clothing, housing, clean water, and health services. He opines that extreme poverty can cause terrible suffering and death, and even modest levels of poverty can prevent people from realising many of their desires.

Wikipedia encyclopedia (accessed on 12/02/2009) defines poverty as the shortage of common things such as food, clothing, shelter and safe drinking water, all of which determine our quality of life. It may also include the lack of access to opportunities such as education and employment which aid the escape from poverty and/or allow one to enjoy the respect of fellow citizens. According to Mollie Orshanky who developed the poverty measurements used by the U.S. government, "to be poor is to be deprived of those goods and services and pleasures which others around us take for granted."

Baumol and Blinder (1985) believe that there are two ways to define poverty. The more optimistic definition uses an absolute concept of poverty: If you fall short of a certain minimum standard of living, you are poor; once you pass this standard you are no longer poor. The second definition is based on a relative concept of poverty: The poor are those who fall too far behind the average income.

Each definition has its pros and cons. The basic problem with absolute poverty concept is that it is arbitrary. Who sets the line? According to them (Baumol and Blinder) most people of Bangladesh would be delighted to live a bit below the US poverty line, and they would consider themselves quite prosperous. Similarly, the standard of living that we now call "poor" would probably not have been considered so in America in 1780. Different times and different places apparently call for different poverty lines.

The fact that the concept of poverty is culturally not physiologically determined suggests that it must be a relative concept. For example one suggestion is to define the poverty line as one half of the national average income. In this way, the poverty line would automatically rise as the nation grows richer.

Once we start moving away from an absolute concept of poverty toward a relative concept, the sharp distinction between the poor and the non poor starts to evaporate. Instead, we begin to think of a parade of people from the poorest soul to the richest millionaire. The "poverty problem" then, seems to be that the disparities in income are "too large" in some sense. The poor are so poor because the rich so rich. If we follow this line of thought far enough, we are led away from the narrow problem of poverty toward the broader problem of inequality of income.

2.10 SOME REASONS FOR UNEQUAL INCOMES (CAUSES OF POVERTY)

- Differences in ability. Everyone knows that people have different capabilities. Some can run faster, ski better, do calculations more quickly, type more accurately, and so on. Hence it should not be surprising that some people are more adept at earning income. Precisely what sort of ability is relevant to earning income is a matter of intense debate among economists, sociologists and psychologists. The kind of talents that make for success in school seem to have some effect, but hardly an overwhelming one. The same is rue of innate intelligence ("IQ"). It is clear that some types of inventiveness are richly rewarded by the market, and the same is true of that elusive characteristics called "entrepreneurial ability".

- Differences in intensity of work. Some people work longer hours than others, or labour more intensely when they are on the job. This results in certain income differences that are largely voluntary.
- Risk taking. Most people who have acquired large sums of money have done so by taking risks – by investing their income in some uncertain venture. Those who gamble and succeed become wealthy. Those who try and fail go broke. Most others prefer not to take such chances and wind up somewhere in between. This is another way in which income differences arise voluntarily.
- Compensating wage differentials – some jobs are more arduous than others, or more unpleasant for other reasons. To induce people to take these jobs, some sort of financial incentives normally must be offered. For example, factory workers who work the night shift normally receive higher wages than those who work during the day.
- Schooling and other types of training – investment in human capital. That education is an investment is a concept familiar to many college students. Workers can sacrifice current income in order to improve their skills so that their

future incomes will be higher. When this is done, income differentials naturally rise. Consider a high school friend who did not go on to college. Even if you are working at a part time job, your earnings are probably much below his or hers. Once you graduate from college, however, the statistics suggest that your earnings will rise and soon overtake your friend's earnings. It is generally agreed that differences in schooling are an important cause of income differentials. But this particular cause has both voluntary and involuntary aspects. Young men or women who choose not to go to college have made voluntary decisions that affect their incomes. But many never get the choice: Their parents simply cannot afford to send them. For them the resulting income differential is not voluntary.

- Inherited wealth. Not all income is derived from work. Some is the return on invested wealth, and part of this wealth is inherited. While this cause of inequality does not apply to very many people, a great number of America's super-rich got that way through inheritance. And financial wealth is not the only type of capital that can be inherited; so can human capital. In part this happens through genetics: Parents of high ability tend to have children of high ability, although the link is an imperfect one. But it also happens partly for economic reasons: Well-to-do parents send their children to the best schools, thereby transforming their own financial wealth into human wealth for their children. This type of inheritance may be much more important than the financial type.
- Luck. No observer of our society can fail to notice the role of chance. Some of the rich and some of the poor got there largely by good or bad fortune. A farmer digging for water discovers oil instead. An investor strikes it rich on the stock

market. A student trains herself for high-paying occupation only to find that the opportunity has disappeared while she was in college. A construction worker is unemployed for a whole year because of a recession that he had no part in creating.

2.11 MEASUREMENT OF POVERTY

Samuelson and Nordhaus (op. cit.) believe that while an exact figure for measuring poverty is helpful, scholars recognize that "poverty" is a relative term. The notion of a subsistence budget includes subjective question of taste and social convention. Housing that is today considered substandard often includes household appliances and plumbing that were unavailable to the millionaire and robber barons of an earlier age.

Because of shortcomings in the current definition, a panel of experts of the National Academy of Sciences recommended in 1995 that the definition of poverty be changed to reflect relative-income status. The panel recommended that a family be considered poor if its consumption is less than fifty per cent of the median family's consumption of food, clothing and housing. Poverty in the relative-income sense would decline when inequality decreased; poverty would be unchanged if the economy prospered with no change in the distribution of income and consumption.

Consequently, poverty is usually measured as either **absolute** or **relative poverty.**

- **Absolute Poverty (Subsistence poverty)** – as its name suggests, according to Sloman (op cit), this definition involves a poverty line measured in terms of those basic items considered essential to life: items such as adequate clothing, food and shelter. By defining poverty in absolute terms, it is assumed that all individuals have similar minimum requirements, and that those whose means fall below the required minimum are poor. Absolute poverty in developing nations, as defined by international organisations, means having a household income of less than US$1 per day.

- **Relative poverty** – relative poverty by contrast, is a far more flexible concept. The definition is based on judgements, made by each particular society, as to what is considered a reasonable and acceptable standard of living, according to the conventions of the day. Hence an individual who is unable to attain this reasonable and acceptable standard is considered poor. For example, if fridges, TVs and videos are considered part of 'civilized existence', then without them you are considered poor! – Sloman (op. cit.). The flexibility of this definition lies in the fact that the standard of living considered to be acceptable by society will differ not only over time, but also from one society to another. Thus poverty measured in this way reflects changes within society.

Economic aspects of poverty focus on material needs, typically including the necessities of daily living, such as food, clothing, shelter, or safe drinking water. Poverty in this sense may be understood as a condition in which a person or community is lacking in the basic needs for a minimum standard of well-being and life, particularly as a result of a persistent lack of income.

Amartya (1985) believes that analysis of social aspects of poverty links conditions of scarcity to aspects of the distribution of resources and power in a society and recognizes that poverty may be a function of the diminished "capability" of people to live the kinds of lives they value. Krieger also sees social aspects of poverty to include lack of access to information, education, health care or political power. Poverty may also be understood as an aspect of unequal social status and inequitable social relationships to develop meaningful connections with other people in society, believes Townsend (1979).

2.12 POLICIES TO COMBAT POVERTY

In combating poverty, Samuelson and Nordhaus (2001) did a splendid work. According to them in finding antidotes to poverty one needs to look at it from two view points. They contend that, the different approaches often reflect differing views of the roots of poverty. Proponents of strong government action see poverty as the result of social and economic conditions over which the poor have little control. They stress malnutrition, poor schools, broken families, discrimination, lack of job opportunities and dangerous environment as central determinants of the fate of the poor. If you hold this view you might well believe that government bears a responsibility to alleviate poverty – either by providing income to the poor or by correcting the conditions that produce poverty.

A second view holds that poverty grows out of maladaptive individual behaviour – behaviour that is the responsibility of individuals and is properly cured by the poor themselves.

Baumol and Blinder (op. cit.) opine that granted that the nation has a commitment to reduce the amount of poverty. What are some of the policies that can promote this goal? Which of these is most efficient? The traditional approach to poverty fighting in the United States has utilized a variety of programs collectively known as a public assistance. In the US for instance, the best known and most controversial of these is Aid to Families with Dependant Children (AFDC). This program provides money to families in which there are children but not breadwinner, perhaps because there is no father and the children are too young to permit the mother to work. According to Baumol and Blinder (op. cit.), in 1984 alone about eleven million people received benefits from AFDC, and the average grant was about $110 per person. In total some $14 billion was spent. The Ghana government within the past two years has also introduced similar concept called Livelihood Empowerment Against Poverty (LEAP) under which a disadvantaged section of the population are given stipends for their upkeep.

AFDC has been attacked as a classic example of an inefficient redistributive program. Why?

One of the reasons is that it provides little incentive for the mother to earn income; welfare payments are reduced by 67 cents for each $1 that the family earns as wages. Thus, if a member of the family gets a job, the family is subjected to a 67 percent tax rate. It is little wonder that many welfare recipients do not look very hard for work.

Another criticism is that AFDC provides an incentive for families to break up. As originally conceived, welfare was not to be paid to a family with a father who could work, even if he was unemployed. So if he had no job, the children would get more income if he left them. Some fathers did. About half the states have now started a special AFDC-UF program (the "UF" stands for unemployed father) so that benefits can be paid to families with an unemployed father.

A third problem is geographical disparities in benefits. It is widely thought (though not conclusively proven) that many poor families migrated from the southern cities of the US to the northern cities because of more generous welfare benefits available there. This placed an enormous financial burden on these cities.

Finally, the tedious case-by-case approach of AFDC, with its cumbersome bureaucracy, and mountains of detailed regulations, seems to frustrate all parties concerned.

2.13 CONCLUSION

Over the last century, numerous investment theories have been developed around the management of risk in an individual investment portfolio because the concept of risk has been recognised as being one of the major impacts on investment returns. Central to these is the Capital Asset Pricing Model (CAPM) and derivatives thereof. All of these models recognize that portfolio risk can be mitigated through diversification.

The mutual fund provided the ideal vehicle for the 'man in the street', giving him access to the investment market at an acceptable cost. Diversification came as part of the package, and even further diversification became possible through various portfolio strategies. However, mutual fund theorists debate the optimal portfolio strategy, the effect of fund sizes and movement between portfolios on investment returns, and role of the intermediary.

The United States mutual fund market is by far the single biggest mutual fund market in the world, although Europe also has a well developed and substantial collective investment fund market. In relation to this, Ghana is very, very small. As with the rest of the world, Ghana's collective investment industry has also grown and adapted to the investor's specific needs.

The research that has been done later on in this dissertation was aimed to determine whether the view and experience of the individual investor and potential investor in Ghana agrees with what has been found in literature studies worldwide. It also tried to find out if collective investment scheme could help reduce poverty in young adults in Ghana. Poverty referred in here is the second view as proposed by Samuelson and Nordhaus, that is, poverty which grows out of maladaptive individual behaviour – behaviour that is the responsibility of individuals and is properly cured by the poor themselves. If poverty is seen from this angle, then the individual who wants to lift up themselves from that condition ought to find out suitable ways to solve the problem. Here, collective investment scheme is seen as one of the ways of solving this type of poverty.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The purpose of this chapter is to describe the research methodology used and to expand on issues encountered in the process of data collection. It was important to make sure that all the data collected was relevant and comprehensive enough to give substance to the work.

To start off, various research methodologies were evaluated, after which a specific method was chosen. A description of the research methodology used is given, why it was chosen and how it was applied. A sampling method was used to gather data for the study, and it was important to justify this sample as being a fair replication of a larger universe pertaining to this particular dissertation. To put the data received in context and to test the results against perceptions, various forms of additional data were obtained to ensure the relevancy of all outcomes.

3.2 RESEARCH METHOD USED

Research is a process that involves obtaining scientific knowledge by means of various objective methods and procedures, Welman, et al (2007). There are two main research methodologies, quantitative and qualitative. Quantitative methodology is concerned with controlling the situation and using remote, empirical and inferential methods. Qualitative methodology is concerned with unstructured interviewing and detailed observation processes.

Both quantitative and qualitative research methods were adopted for this dissertation. Quantitative research evaluates a reliable and objective set of data. Qualitative research on the other hand relies on subjective data gathered through interviews, observations, etc. This section will continue to describe the actual research process.

3.2.1 The aim of this research is to find out the popularity of collective investment schemes as an investment vehicle, and determine extent to which it can help reduce poverty among young adults in Ga West District.

3.2.2 The research problem is formulated in Chapter 1 as:

"*The popularity of Collective Investment Schemes as an investment vehicle in Ghana today lies in the fact that an individual investor can satisfy his investment needs through this vehicle and thereby help improve his wealth creation and consequently reducing poverty.*"

From the problem statement it can be derived that the following areas needed to be researched:

- Collective investment schemes – unit trusts
- Individual investor as well as potential investor in Ga West District
- Investment needs

- Investment knowledge
- Poverty – what is it?
- Interrelationship between investment and poverty reduction

3.2.3 To find data on areas identified in 3.2.2, an appropriate sampling had to be found from a population that was made up of individual investors and potential investors in Ga West District. A sampling method was used to gather data from one hundred and sixty eight (168) individuals for the study. Even though two hundred and ten (210) questionnaires were distributed, only 168 of them were received. Eventually, twenty three (23) of the forty two (42) which were outstanding were later on received, they were not analysed as part of this work due to critical time constraint – this would have delayed the entire work.

3.2.4 The questionnaire was designed to encompass all the major areas that were probed in the first part of the dissertation, with specific reference to collective investment schemes and general views on unemployment in the Ghanaian society. The following areas (and questions pertaining to them) were covered. Care was also taken to interlink the questions to ensure continuity and to back up responses. The term mutual fund investment was used throughout the questionnaire, as it was more recognizable for the sample. The only challenge, however, was that quite a few people were confused between mutual fund investment and National Health Insurance Scheme.

3.3 DATA COLLECTION

The data collection took place by way of survey questionnaires that obtained information on biographical details, behaviour, opinions and attitudes.

The details of this questionnaire are discussed under 'data management' and an example of it is attached to this dissertation as annexure A. The questionnaire was structured in a way which made analysis simpler and less prone to errors. It was designed in line with the five-point Likert scale, in which respondents were asked to answer each question in terms of agreement or disagreement, with 1 indicating strongly agree through to 5 indicating strongly disagree.

3.4 DATA ANALYSIS

The data was analyzed by capturing all the responses on a MS Excel spreadsheet and converting it into statistical data. Due to the nature of each different question, the statistical outcomes were interpreted individually question by question. It should, however, be noted that the final sample remained the same and the biographical profiles are analyzed in the beginning of Chapter 4. The rest of the analysis is also presented in Chapter 4. The presentation of the results differs from question to question, depending on suitability.

3.5 CONCLUSION

The research process was done scientifically and enough assurances were gathered to verify a believable set of data that would assist in reaching viable conclusions with regard to the problem statement. Although it is very important part of the dissertation, the research part only assists in the ultimate outcome of the problem statement.

CAHPTER 4

RESEARCH RESULTS

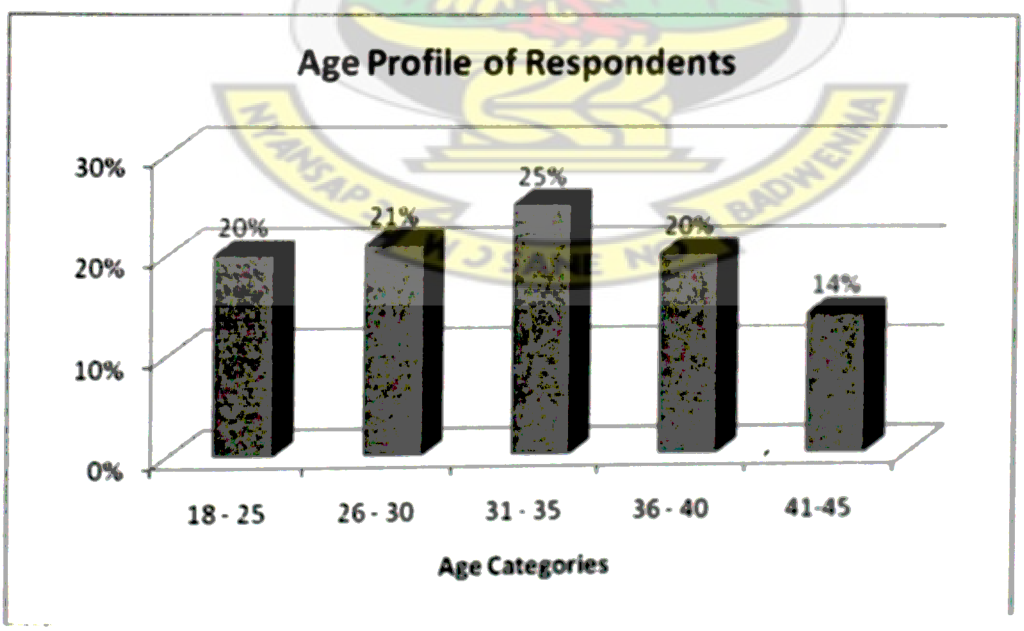
4.1 INTRODUCTION

The data gathered as described in Chapter 3 is analyzed in this chapter. The purpose of this chapter is to present the reader with statistical evidence of assumptions made in this dissertation as well as thorough analysis, to identify trends to support deductions made in this dissertation. The profile of the respondents will first be looked at, after which the responses will be analyzed in detail in the context of this dissertation.

4.2 PROFILE OF RESPONDENTS

The total sample was 168 respondents coming from Amasaman, Pokuase, Taifa, Dome, Santamaria, Sowutuom, and Ablekuma. Here are the main profiles:

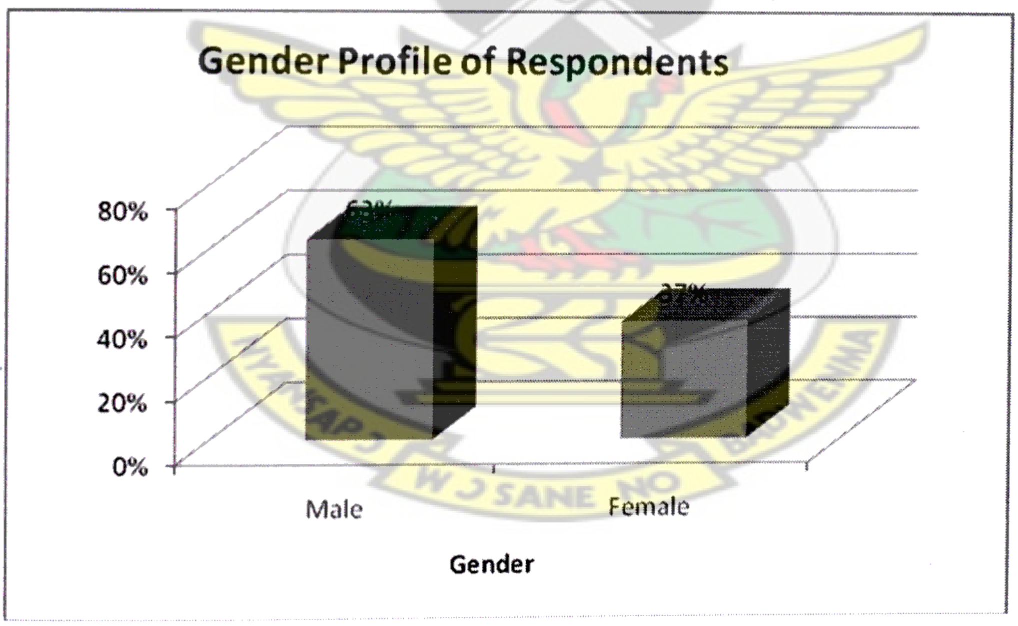
FIGURE 4-1



66% of the sample who responded, are in the age groups between 26 and 40, indicating a range of 14 years. Respondents in this age group are either out of school or in apprenticeship and have begun working. They therefore have a stable or regular income, a prerequisite for investment activity.

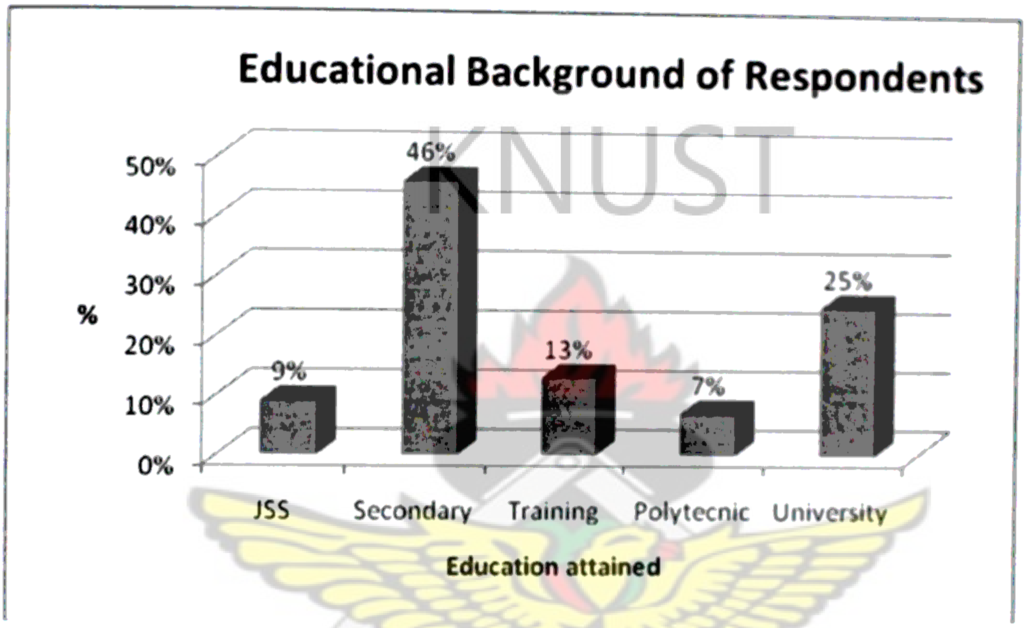
Another feature of people in this group is that they are considered to be risk-seekers, who would want to take the risk by investing in high return but risky ventures. It is worthy to note that 20% of respondents are below the age group of 25 years. Majority of respondents in this group are either still in school or in apprenticeship. In all, 14% of respondents are 41 years or older.

FIGURE 4-2



Almost two thirds (63%) of respondents represented males with the rest (37%) of them being females as shown in Figure 4-2 above. Efforts were made to ensure that almost an equal number of male and female respondents were provided with questionnaires. However, more female respondents, than their male counterparts, did not return their questionnaires. This has rendered the results somewhat skewed in favour of male respondents.

FIGURE 4-3



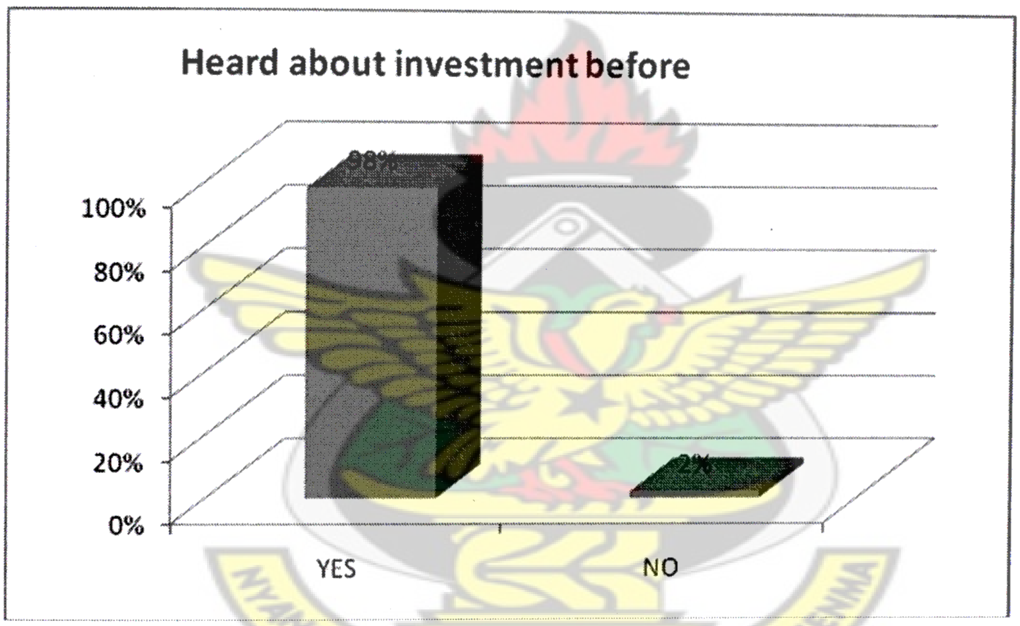
It is significant to note that 91% of respondents have at least secondary education. Out of the 168 respondents, 78 of them, representing 46% have obtained secondary school education only, whereas a 45% of them having attained higher education beyond secondary school level. It is only 9% whose education were up to the JSS level. The significance of this fact is that almost all the respondents are literates, as a result when it comes to matters regarding investments and/or poverty, they are better placed to make informed judgement.

4.3 ANALYSIS OF RESPONSES RECEIVED

The research sample totals 168 respondents. Not all of the respondents answered all the questions or selected all the propositions in each question.

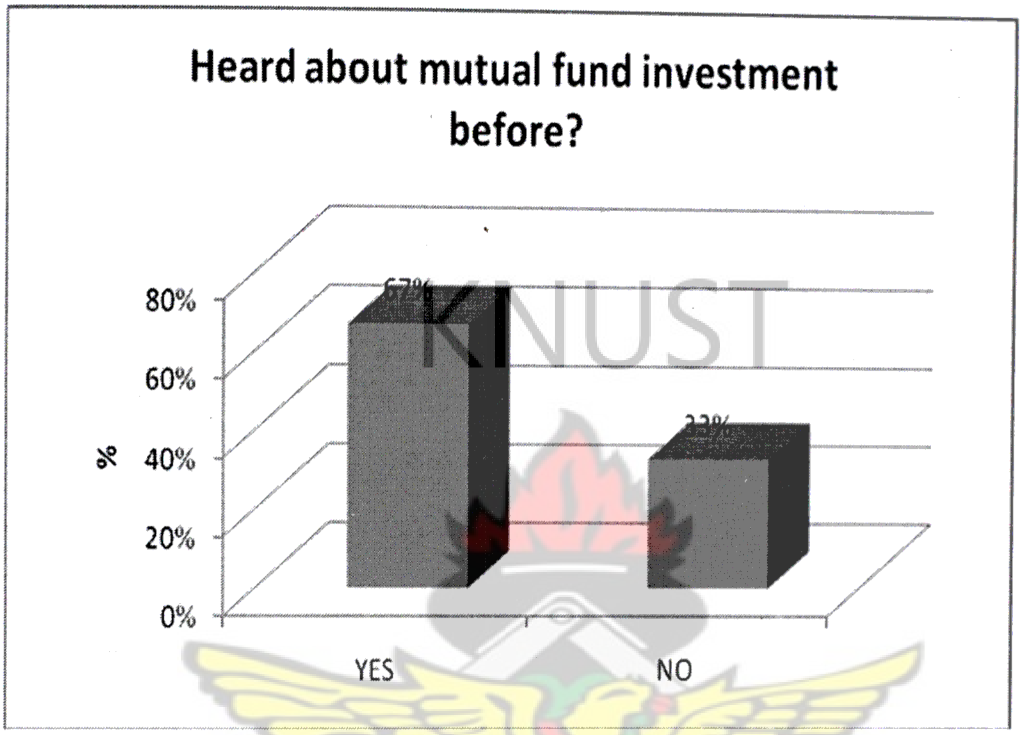
All the graphic depictions below, where applicable, show the results as a percentage of the sample total (168).

FIGURE 4-4



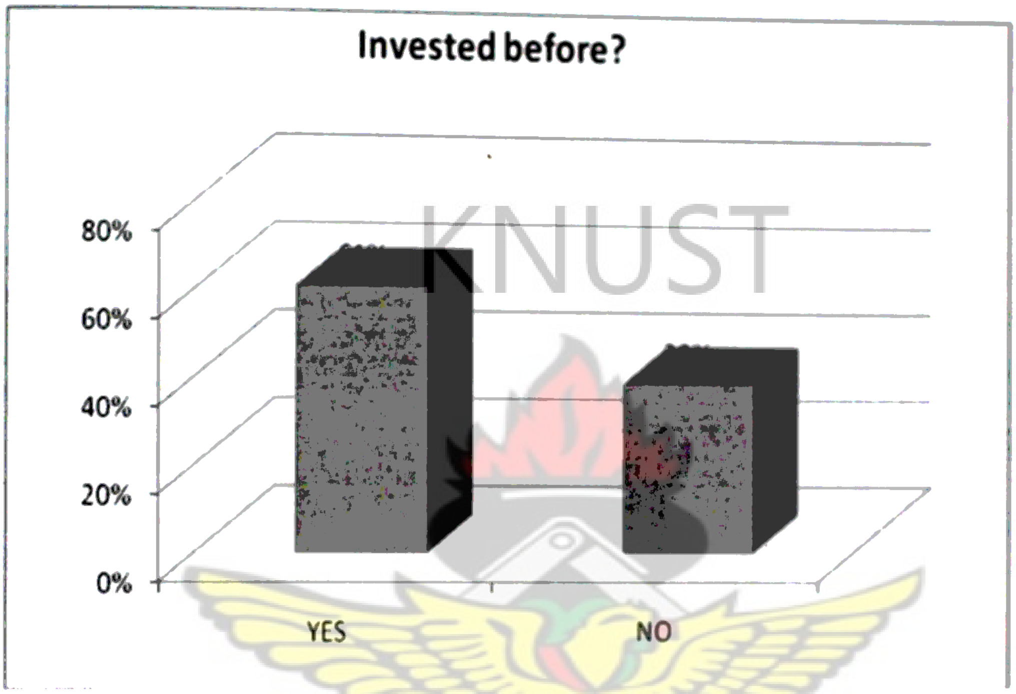
Respondents were posed the question whether they had heard about investment before. All the 168 respondents answered this question. 98% of them had heard about investments before. Only 2% gave a negative answer. The justification of this question was that, it was to set the tone for the discussion of the hypothesis. The assumption here was that if respondents had heard about investment before, they would be better exposed in analysing the effects, if any, investment has on poverty reduction.

FIGURE 4-5



Since the main theme of this dissertation centres on mutual fund investment, respondents were further asked whether they had heard about mutual funds before. Because mutual fund is one of the various investment vehicles and for that matter a subset of investment, it was expected that the positive response would be less than the positive response obtained in the question ***"have you heard about investment before?"*** To this above question, 113 respondents representing 67% had heard about mutual fund investment before, contrasting with 98% who had heard about investment. The implication here, as it was expected, is that more people had greater knowledge about investment than they had on mutual fund investment. Mathematically, investment in this respect could be seen as the main or universal set. Out of this universal set is mutual fund investment, representing a subset of the universal set. In effect, of the 165 respondents who had heard about investments before, only 113 of them had knowledge on mutual fund investment.

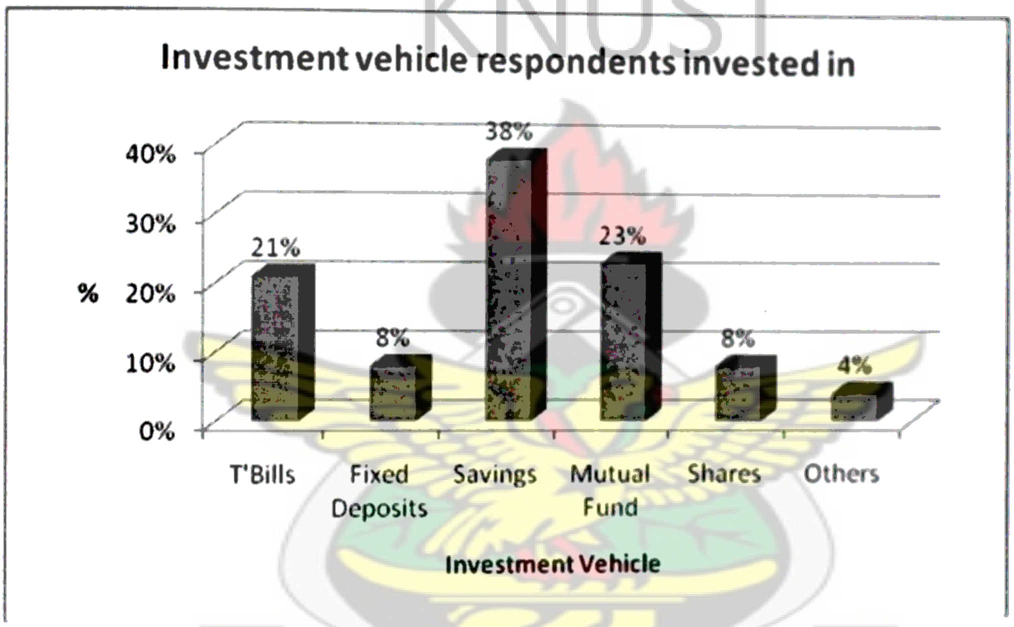
FIGURE 4-6



The central objective of this dissertation was to find out if investment could help reduce poverty among young adults in the Ghanaian society. In view of this, it was decided to find out how many of the respondents had actually invested before? The outcome of this was to ascertain the depth of their investment knowledge. In all, 102 respondents representing about 61% said they had invested before. This figure was significant since these people were in a better position to relate investment issues better than those who had not invested before.

A subsequent question was posed to them to find out the investment vehicle they had invested in. It was expected that ordinarily, the responses would be less than or equal to the number of respondents who had actually invested before. As a result up to 102 responses were anticipated. Contrary, 144 responses were received (42 responses higher than the number who had invested before). The reason for this variance was that some of the respondents had invested in more than one investment vehicle, hence the difference.

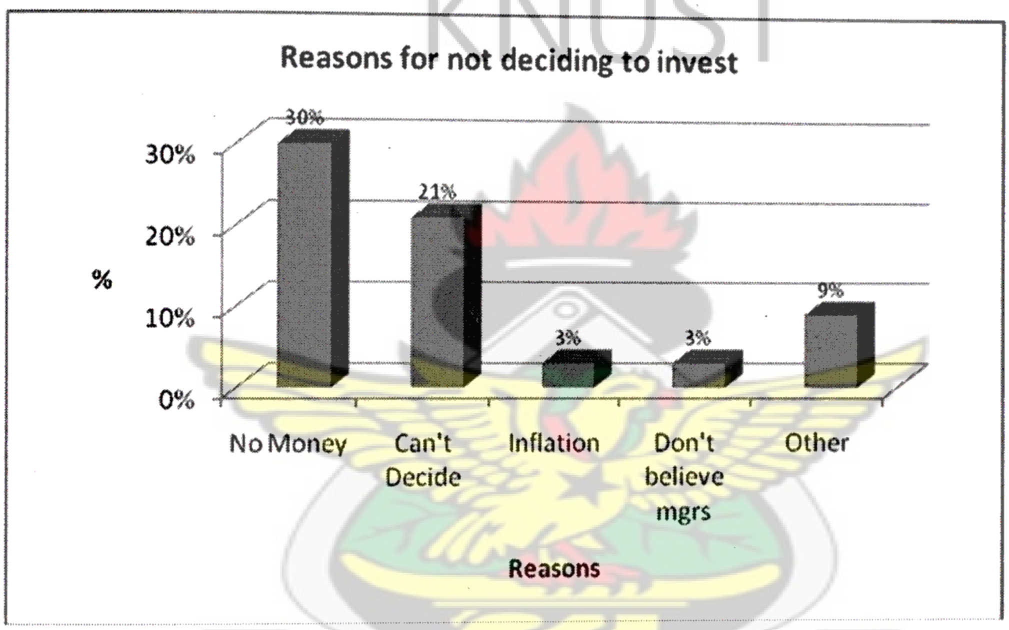
FIGURE 4-7



With the relatively higher educational background of respondents as discussed earlier in Figure 4-3, the results of this question was as strange as interesting. Savings, which, by all intents and purposes is not investment, rather attracted more responses than the investment vehicles. Savings attracted a response rate of 38%. This was followed by Mutual Fund investment of 23%. It is realised that the difference between savings and mutual fund is 15% implying that respondents are comfortable with operating savings accounts than any other investment vehicle. Treasury Bills followed closely with 21%. Shares and Fixed deposit seem not to be too popular with investors, as they both recorded 8% each. Other investment vehicles other than those mentioned above received 4%.

Those who had not dicided to invest were asked to provide reasons for their actions. Their responses are provided in Figure 4-8.

FIGURE 4-8



Results indicated that 20 out of the 66 respondents, representing 30% did not invest for the reason that they did not have money. 21% of them did not invest because they could not make the decision to invest. Other factors besides the ones mentioned above recorded 9% of the reasons. Some of these factors were:

- Not having enough information on the various investment vehicles
- Have not thought of investing at all

- No motivation to invest.

The individual investor saves for a number of reasons. Collective investments are only one of the several savings vehicles (eg. Bank savings, pension/provident funds etc) through which an individual investor can save. The sample was asked why they would want to invest in mutual funds as a savings vehicle to determine where it fits into the personal financial management framework. The results are shown in Table 4-1 below. To simplify the discussion of the outcome, the "Strongly Agree" and "Agree" statements are combined and compared with the "Neutral", and the combined "Disagree" and "Strongly Disagree" statements. The results are shown in Figure 4-9 below.

TABLE 4-1

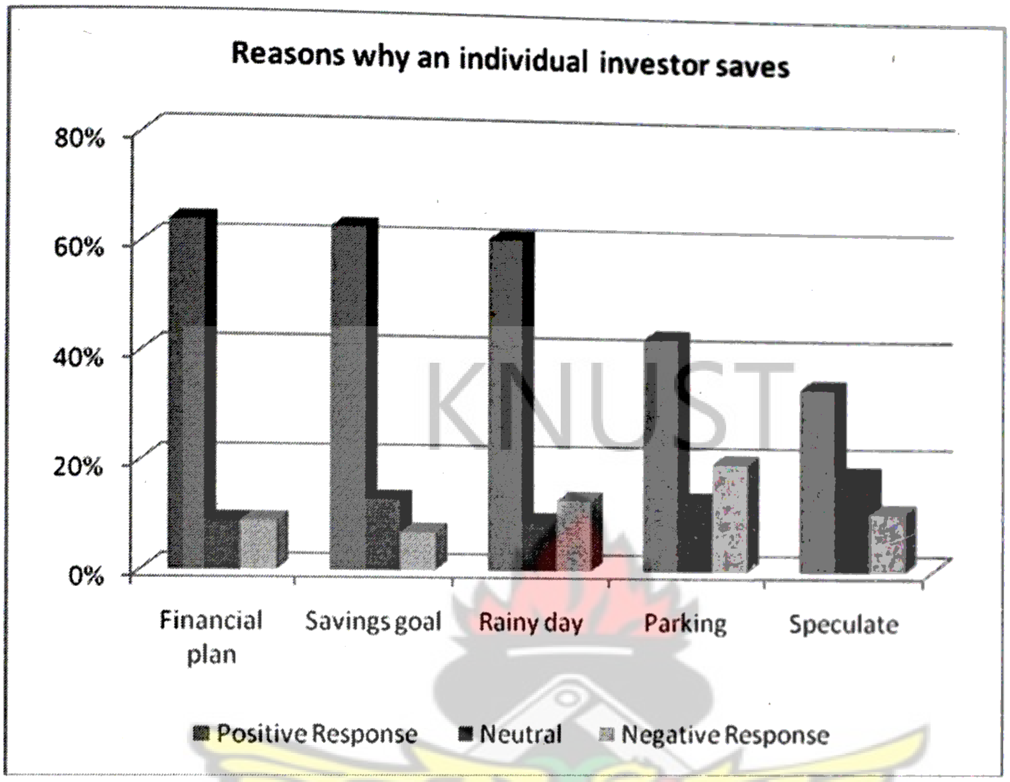
Reasons why individual investor saves

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Personal financial and retirement plan	82	26	15	11	4
Specific savings goal (to pursue a profession)	72	34	22	2	10
To add to savings (for a rainy day)	79	23	16	11	10
To temporarily park surplus funds (short term)	37	35	2	32	1
To speculate	37	22	30	25	17

Majority, (64%) of the respondents reacted positively to mutual funds being seen as part of their personal financial and retirement plan. This supports the hypothesis of this dissertation; that the collective investment scheme can help improve the investors wealth creation and thereby reduce poverty. It also indicates that the other specific areas of the investment need that is satisfied. 63% of the respondents would like to use mutual funds for spefic savig goals and 61% for rainy day. Although it is quite a low percentage, 34% -

43% of respondents would like to manage their mutual fund investments actively through speculative and parking funds.

FIGURE 4-9



Collective investments as a savings vehicle therefore provides for a need over the whole savigs/investment spectrum, but are preferred to provide liquity or as a short-to-medium term solution for the personal financial plan of the individual investor.

At the beginning of the dissertation, it was shown that collective investments have experienced strong growth during the recent past. One of the reasons stated was the awareness created of collective investments.

This was tested with the sample to determine how effective collective investments are promoted as a savings vehicle and through which channels it is best communicated. The results are shown in Table 4-2 below.

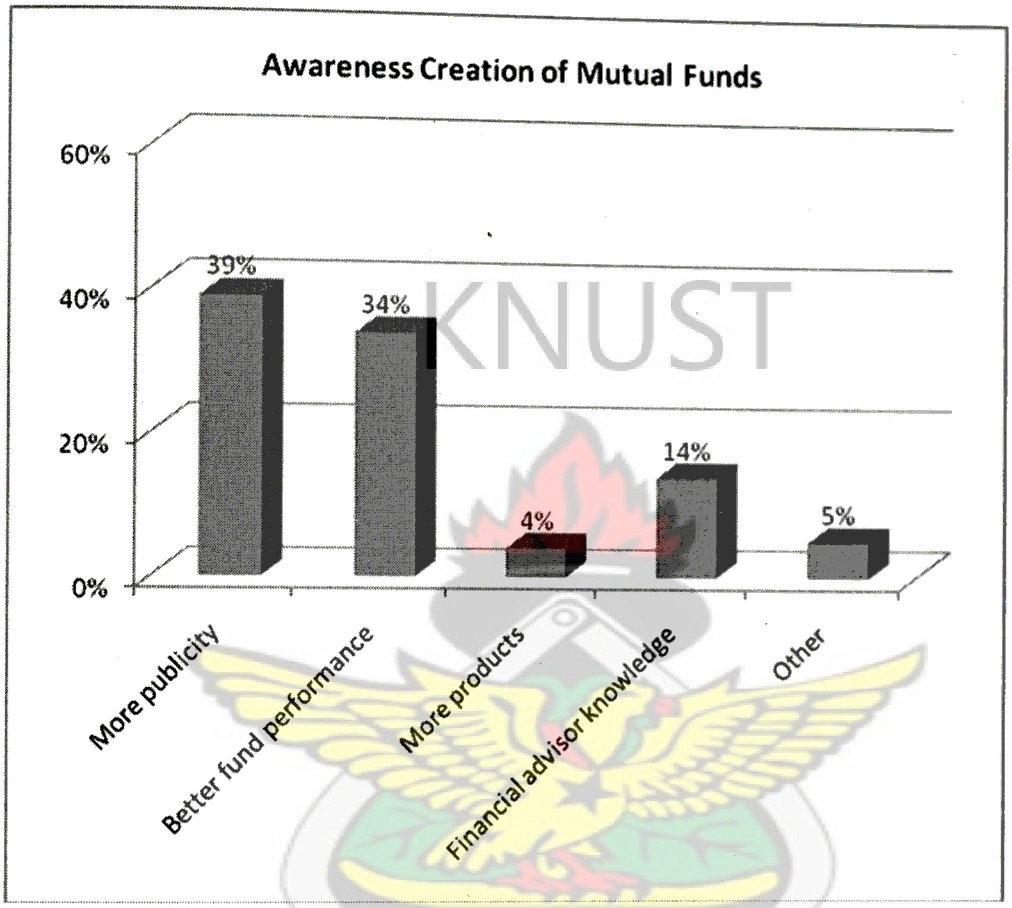
TABLE 4-2

Awareness Creation of Mutual Funds	
	Response
More publicity	66
Better fund performance	57
More products	6
Financial advisor knowledge	24
Other	9
TOTAL	162

Publicity seemed to be the best communication channel according to 39% of the respondents, followed by Fund performance with 34%. All the three factors combined – Financial advisor knowledge, More products and Others – contributed to only 23%. The outcome of these responses are consistent with the prevaling conditions in the country. For instance, over the last five years there has been an intense publicity about pooled investments. Key amongst them is the numerous adverts by Databank both in the electronic and print media about the existence of Epack and MFund investment products.

Quite apart from this, the funds performance information were available (until recently) in the Daily Graphic. They are also available on the web as well. This has increased peoples' awareness about mutual funds, because they are able to monitor relative performances of the various funds. Again, based upon performance, all investors are able to compute their worth at all times in the various funds. This enables the investor to make informed choices and decisions.

FIGURE 4-10



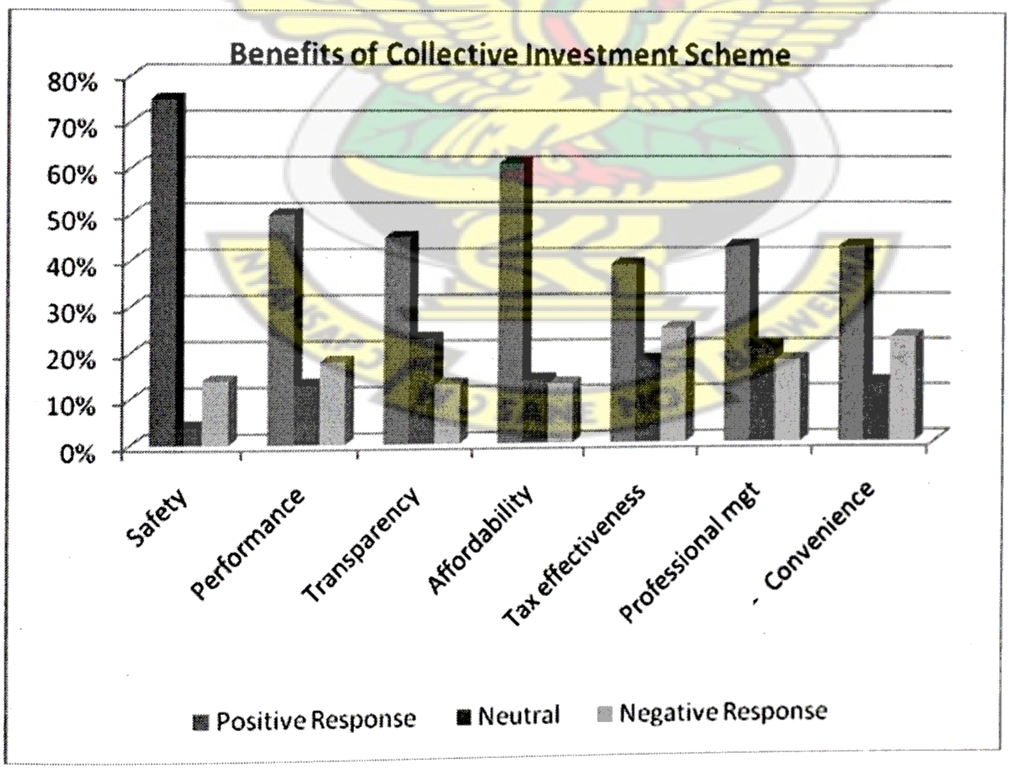
The sample was asked to indicate which benefits of mutual funds would appeal to them were they to invest in mutual funds. The results are shown in Table 4-3 and Figure 4-11 below. The positive responses were combined and showed together with the combined negative responses as well as the neutral responses in Figure 4-11 above. If one should revisit the statement made by Woodard (2007) in Chapter 2 of this dissertation, *"Mutual* *funds are one of the best investments ever created because they are very cost efficient and very easy to invest in"*, it is clear that the majority of respondents did not agree with him.

TABLE 4-3

Benefits of Collective Investments

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Safety	81	45	6	15	9
Reporting on Performance	39	45	21	21	9
Transparency	45	30	39	12	9
Affordability	51	51	24	15	6
Tax effectiveness	27	39	30	18	24
Professional mgt	36	36	36	18	12
Convenience	33	39	21	9	30

FIGURE 4-11



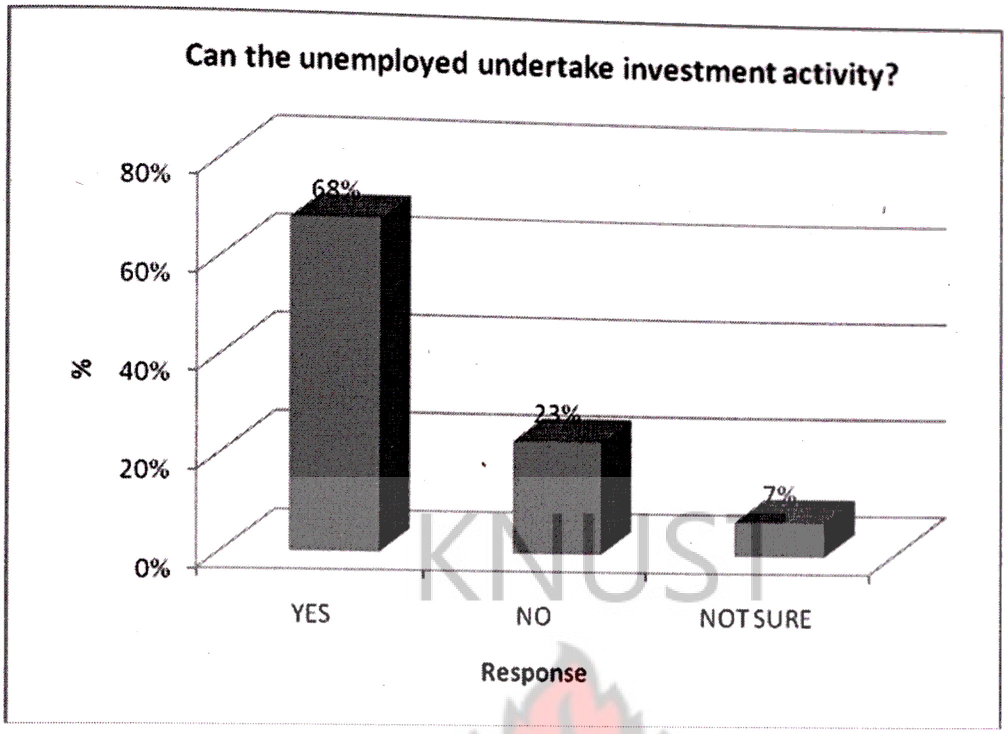
With respect to the aspect of the statement that has to do with "easy to invest in" which is it being convenient, only 43% of respondents thought as such. This response is quite strange because one of the most cardinal benefits in investing in mutual fund is its convenience. The majority of respondents, however, 75% and 61% respectively, indicated that 'safety' and 'affordability' were the two most acceptable benefits they envisaged.

'Performance' (50%) and 'Transparency' (45%) are the next best benefits to respondents. Indeed 'Tax effectiveness' (39%) is the lowest ranked, most probably because it is one of the most difficult aspects of collective investments to understand. In total the positive responses outweighed the neutral and the negative responses. Except for 'Tax effectiviness' and 'Convenience', 25% and 23% respectively, whose negative responses exceeded 20%, all the negative responses are below 20%.

The sample was asked whether an unemployed person could undertake investment activity. Figure 4-12 summarises the responses. In all 165 respondents answered this question. 68% believe the unemployed individual and for that matter not earning any regular income could still invest. 23% however think they do not think an unemployed person could undertake any investment activity. 7% of the people however were not sure whether the unemployed could invest or not.

Respondents who said the unemployed could undertake investment activity were further asked to indicate how such people (unemployed) could raise money towards investment purposes. Figure 4-12 below depicts the results.

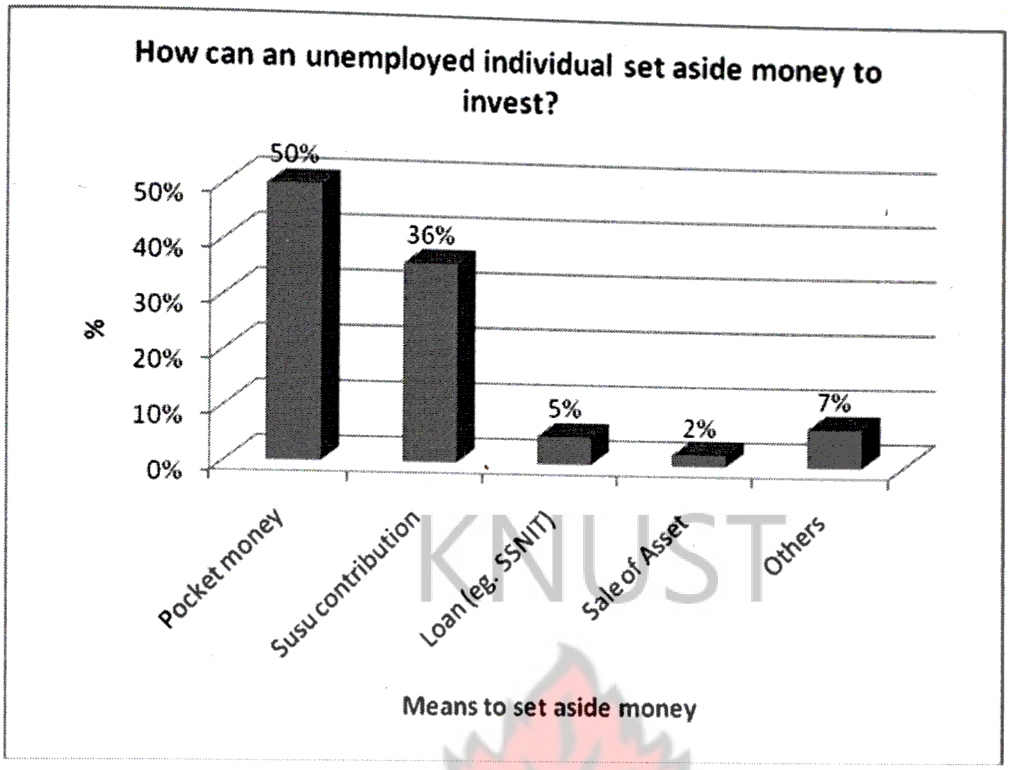
FIGURE 4-12



In total 114 respondents had responded that the unemployed could invest. Consequently, 114 responses were anticipated for the question regarding how the unemployed could set aside money to invest. Nonetheless, 132 responses were received. A closer examination of the responses revealed that all the 7% (12 respondents) who were not sure the unemployed could invest had all responded to this question. In addition, 6 other respondents who were emphatic in saying that the unemployed could not invest did respond to this question as well.

In a question to find out how the unemployed individual set aside money to invest, the results was interesting, and it is summarised in Figure 4-13 below.

FIGURE 4-13



50% respondents believe that an unemployed individual can set aside part of their pocket money to invest. This was followed by 36% who said such a person could save under a 'susu' scheme to raise fund to invest. Techically, money to be used as susu contribution might have to originate from one source or the other. In effect an unemployed person who does not receive regular income might find it difficult to engage in susu business since daily deposits are the basic requirement for susu business. It therefore presupposes that any susu contribution by the unemployed must necessarily be financed from pocket money or some other source(s). 7% of the respondents said an unemployed person can set aside money through other means such as:

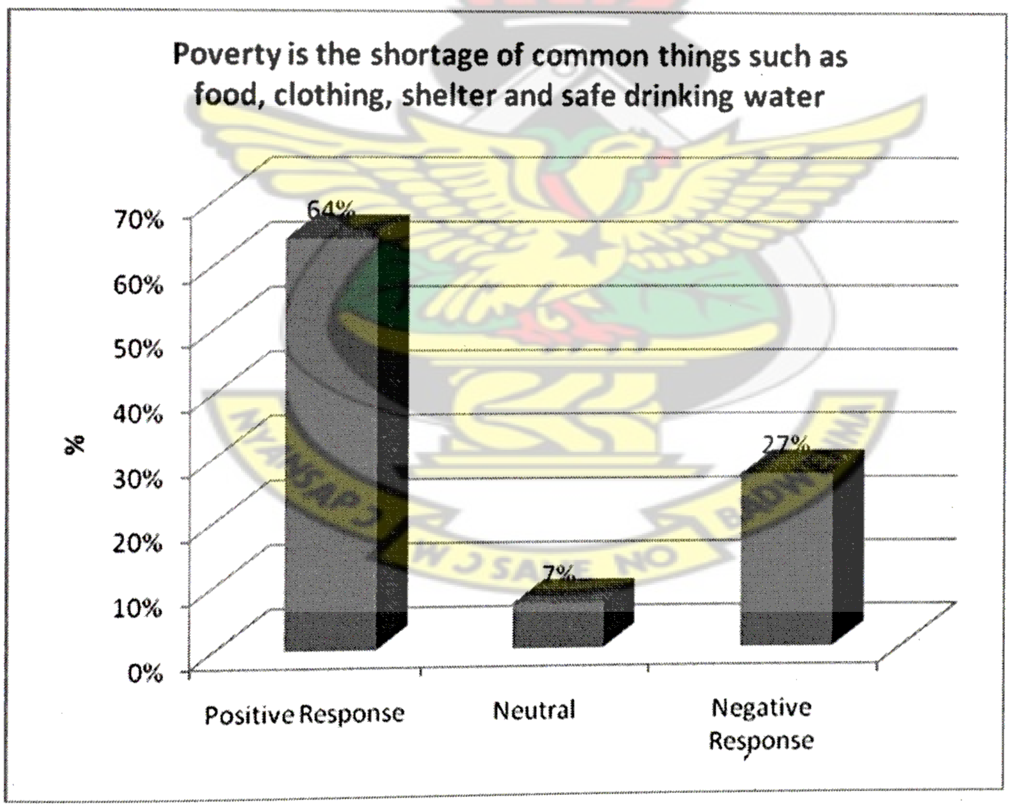
- Identifying need and providing services to colleague students who might want the services, for a fee.

- Parents investing for children, etc.

5% of respondents are of the opinion that loans, such as SSNIT loans could be used by students in tertiary institutions for investments.

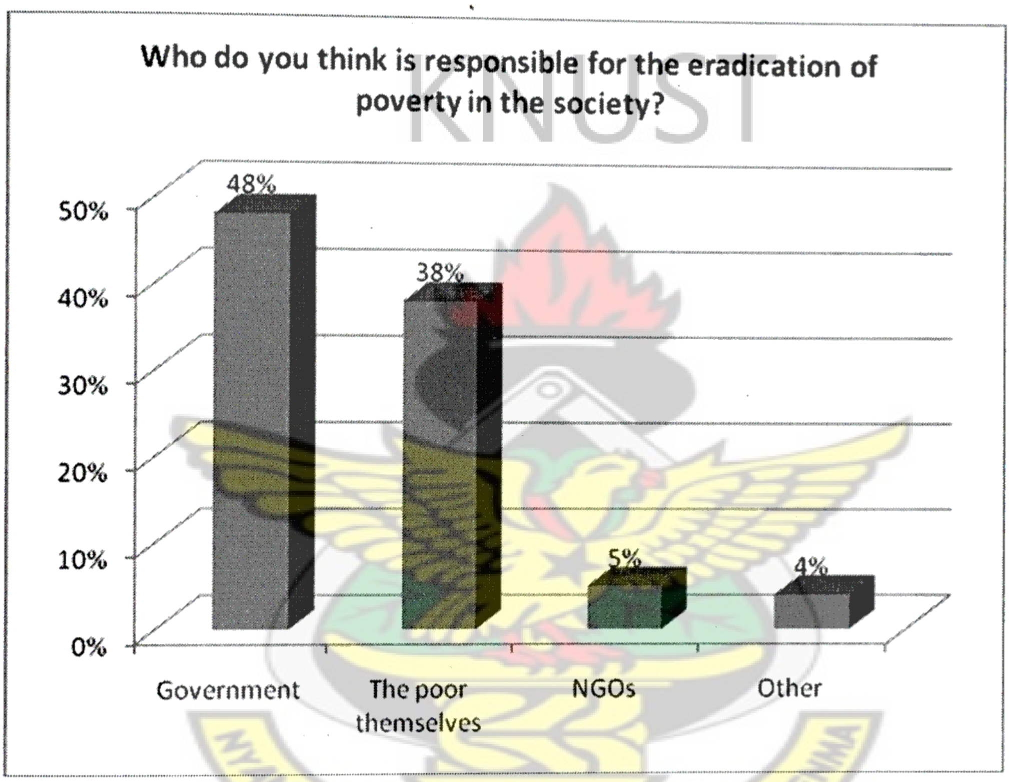
Respondents were asked how they understood what poverty was. Their responses were sought through the following statement: *"Poverty is the shortage of common things such as food, clothing, shelter and safe drinking water. Do you share this view?"* Positive response, indicating those who agreed with the statement was 64%. 27% disagreed with this statement with 7% providing a neutral response.

FIGURE 4-14



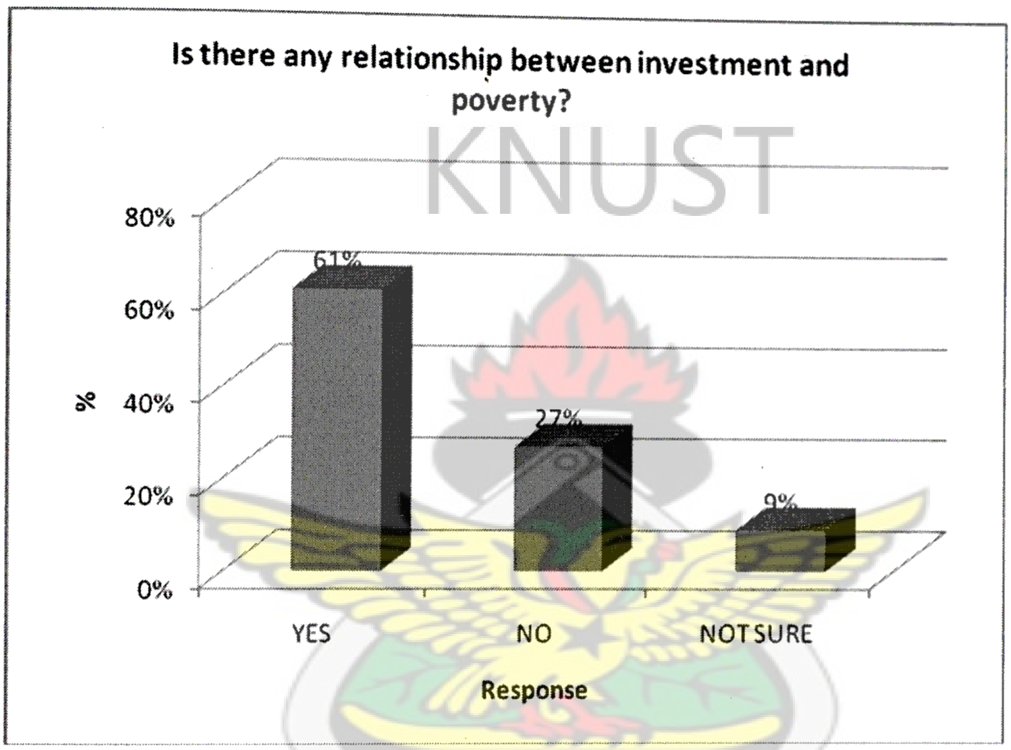
Following Samuelson and Nordhaus's (op cit) second view on poverty, that, poverty which grows out of maladaptive individual behaviour – behaviour that is the responsibility of individuals and is properly cured by the poor themselves, respondents were asked to indicate who was responsible for the eradication of poverty.

FIGURE 4-15



Majority of the respondents (48%) were of the opinion that it is the government's sole responsibility to eradicate poverty in the society. 38% however believed that the poor themselves were responsible for their poverty and hence should be the ones who should eradicate it. 5% nonetheless thought non governmental agencies should be the ones who should get rid of poverty in the society. 4% of respondents were however of the view that poverty can best be eradicated through the concerted efforts of various stakeholders including the government, the poor themselves and NGOs.

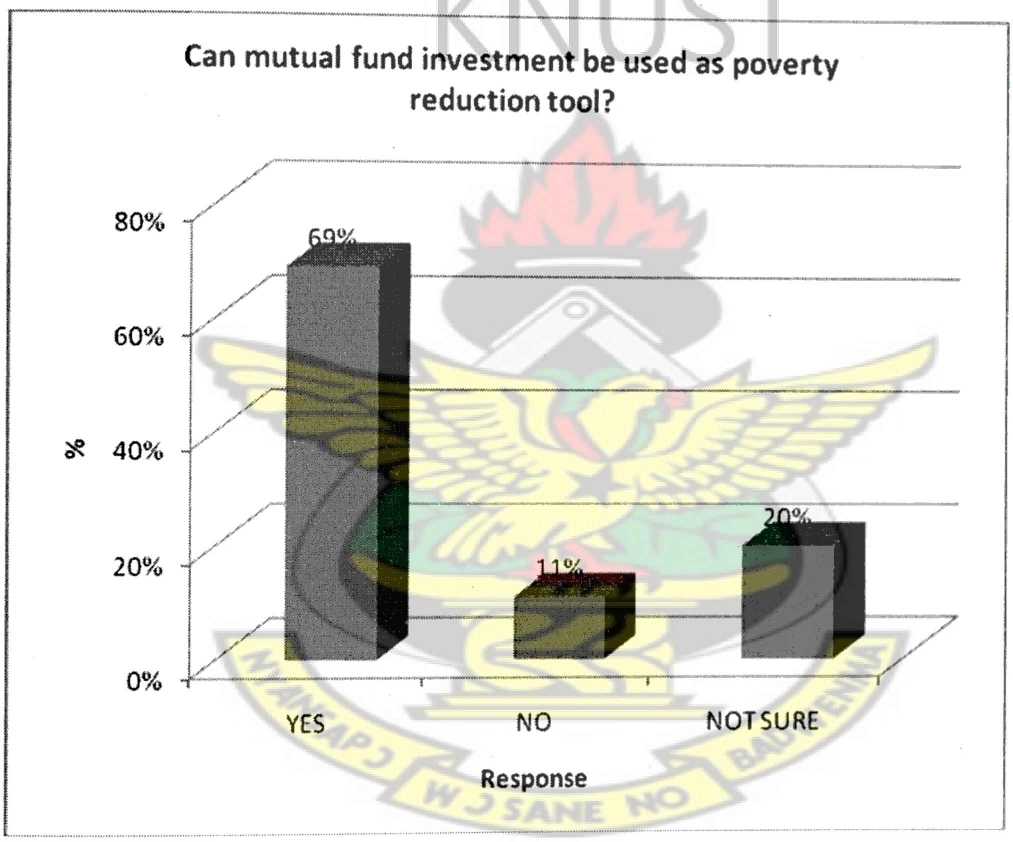
FIGURE 4-16



In order to find out whether there was any relationship between investment and poverty, 61% of respondents answered in the affirmative. 27% answered NO, with 9% not sure. The outcome of this question is consistent with the hypothesis of this dissertation – poverty reduction among young adults in Ghana through collective investment schemes. Indeed, if any relationship does exist, then the deduction is that investment can have impact in on way or the other, on poverty.

How then can investment affect poverty reduction? Can it be used as a poverty tool to reduce poverty? As shown in Figure 4-17 below, 69% of respondents are of the view that mutual fund investment can be a tool to reduce poverty. In other words, almost seven out of ten young adults are of the opinion that poor people can use mutual funds to improve their lot and hence reduce poverty. 11% do not think mutual funds could be used to reduce poverty. In all, 20% of respondents were not sure if mutual funds could be used as a poverty reduction tool.

FIGURE 4-17



The results of the study done for this dissertation indicate that respondents who double as investors see investment in collective schemes as part of their financial plan, not only for growth, but also for its other features, such as liquidity. Investors seem to be positive about the benefits and growth of CIS in general, indicating safety and affordability as the main benefits.

The study shows, however, that respondents do not share the same aspiration with regards to advantages of collective investment scheme as occurs the world over. Whereas it is generally believed that world over that liquidity is the single most benefits of CIS, respondents in this study gave a contrary view.

4.4 CONCLUSION

The questions were designed to give substance to the hypothesis *to find out the extent to which young adults in Ghana with particular reference to the Ga West District know about investments generally and collective investment schemes specifically, and how the latter can help reduce poverty among young adults.*

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

John Bogle, founder of the Vanguard group and a well respected 'guru' of Mutual Funds in America, addressing the National Investment Companies Service Association in Florida on 20 February 2007, referred to five dreams he has for the redesigning the fund industry.

1. The Dream of a Fair Share for Shareholders

   In his first dream Bogle urges investors to put pressure on the industry by choosing low-cost solutions and thereby forcing high-cost firms to conform.

2. The dream of Serving Investors for a Lifetime

   His second dream is to design an industry that will serve investors for a lifetime. Mutual funds (Collective Investments) should become a central element in the country's over all retirement system. This includes proposals and designs to help accomplish "cradle-to-grave" retirement security.

3. A Dream of Long-Term Investment Horizons

   His third dream is that investment managers turn back the clock, reverting to the traditional focus on long-term investment strategies.

4. A Dream that We serve Long-term Investors

   His fourth dream is to serve long term investors. The industry should return to its roots in providing broadly diversified mutual funds (collective investments) – not narrowly-defined products – that can be bought and held "forever".

5. <u>The Dream of Putting Fund Investors in the Driver's Seat</u>

His fifth dream is putting the investors in the driver's seat of fund governance. Investors should have an active role in fund governance and ensure that the best interest of the unit holders is always taken into account.

These visionary statements are important in the context of this dissertation, not only because of John Bogle's vast experience and influence on the industry, but also due to the fact that it embraces the essence of the findings of this dissertation. This final chapter will summarize the findings of the research done for this dissertation in terms of the hypothesis and objectives.

5.2 CONCLUSIONS FROM RESEARCH

Early economists explored the principle of optimizing investments from a firm's point of view. These principles were carried forward to the security investment market where optimum investment frontiers are still explored today. The search for these frontiers are guided by the risk vs. return trade off, which differs from individual to individual depending on specific investment needs. To give the investor a broad risk-return profile, a portfolio of securities in various asset classes is compiled for the individual investor.

Modern Portfolio theory states that the diversification of securities reduces the portfolio risk. A number of portfolios can be created on an efficient frontier of portfolios, depending on the risk-return level. In an efficient market where security prices reflect all the information, a portion of all available securities should maximize diversification.

This, is however, not necessary, as studies have shown that a maximum of 20 stocks in a portfolio should minimize the risk of a portfolio in terms of diversification.

Collective Investment Schemes provide the diversification an investor needs in one portfolio. An investor can, however, increase his exposure to all sections of the market by investing in a diversified number of collective investment schemes. Investment in collective investment schemes, however, poses its own set of challenges. Apart from having to choose from a range of mutual funds, each with its own investment policy, an investor also has a choice of a number of investment managers. Factors like performance and costs can play a role in the investor's choice, but ultimately the investor needs to have an investment portfolio that suits his risk profile.

The results of the done for this dissertation indicates that investors see investments in collective investment schemes as part of their financial plan, not only for growth, but also for other features as convenience. Investors seem to be positive about the benefits and growth of CIS in general, indicating safety and affordability as the main benefits. The study also confirms that respondents recognize the role of collective investment scheme as a means of reducing poverty.

The study however shows that there yet some people who have the feeling that government is responsible for poverty among the citizens, therefore it is only fair that poverty issues addressed by the government.

To conclude, most of the respondents (68%) believe that the unemployed and for that matter people who do not receive regular incomes can undertake investment activities. More than half, (61%) are of the view that there is a relationship between investment and poverty. Again, 69% of them are of opinion that mutual funds could be used as a poverty reduction tool.

Even though poverty cannot be eradicated completely in the society, stakeholders can help arrest its impact depending upon how the various stakeholders see it. For instance, those who believe that poverty reduction is the sole responsibility of the government would all the time expect the government to come to their aid. However, those who believe that government alone cannot eradicate poverty would adopt measures aimed at reducing its effects in their lives. For instance, young people who graduate from the universities and other institutions of higher learning, and who share a broader view that government alone cannot employ them would look elsewhere for employment avenues.

5.3 IMPLICATIONS AND RECOMMENDATIONS

The study has shown that there are two main view points of poverty, according to Samuelson and Nordhaus (op cit). They contend that the first group, proponents of government action, see poverty as the result of social and economic condition over which the people have little control. People who hold this view believe it is the responsibility of the government to alleviate poverty – either by providing income to the poor or by correcting the conditions that produce poverty. For such individuals, they will not make the efforts to undertake any investment in whatever form, due to their philosophy of poverty.

The second group however, views poverty as something which grows out of maladaptive individual behaviour – behaviour that is the responsibility of individuals and is properly cured by the poor themselves. Such individuals possess in-built motivation to find ways to improve their lots and hence extricate themselves from poverty through various means, including investing in collective investment schemes.

Collective investment schemes thrive best on factors such as consistency of investors to invest, irrespective of the size of the amount invested. As the popular saying goes, "little drops of water makes a mighty ocean", people who are known to be poor and are determined to come out of poverty could consistently invest in collective investment schemes. Within a few years, they would be able to make huge savings to lift themselves up from poverty.

Based upon the responses from the respondents, roughly seven out of ten believe mutual fund investment can be used as a poverty reduction tool. With this in mind, young adults ought to be encouraged to undertake investment. Obstacles that prevent them from investing their funds should be removed.

Although, presumably following national trends with regards to investing patterns, the investment pattern in the Ga West District could be researched further. The principles of poverty reduction and investment schemes are well established. The average investor in the USA is well researched. In the Ga West District, more research can be done on similar basis to compare the average investor with that of other districts, and to give an indication of how collective investment scheme will affect the average investor in Ga West District vis a vis poverty reduction.

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KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COMMONWEALTH EXECUTIVE MBA

QUESTIONNAIRE

******

Dear Respondent,

As part of the requirements for the award of Commonwealth Executive Masters degree in Business Administration, I am conducting a study on the topic ***Poverty Reduction among Young Adults in Ghana through Collective Investment Schemes.*** This questionnaire is the data collection instrument for the study. I would be grateful if you could take a few minutes of your time to answer the following questions. Information provided will be treated as confidential and used for academic purposes only.

Thank you.

******

Instructions

Please indicate to what extent the options underneath each statement apply to you. The extent of agreement is graded from Strongly Agree (denoted by 1) to Strongly Disagree (denoted by 5).

(1) Strongly Agree
(2) Agree
(3) Neutral
(4) Disagree
(5) Strongly Disagree

Q1 Have you ever heard about investment (*investment: the active redirection of resources from being consumed today so that they may create benefits in the future*) before?

YES ☐ NO ☐

Q2 Have you put your money in any investment before?

YES ☐ NO ☐

Q3 If yes, what kind of investment vehicle did you put your money in?

- Treasury Bills ☐
- Fixed Deposits ☐
- Savings Account ☐
- Mutual Fund ☐
- Company Shares ☐
- Others ☐

Q4 If your answer to Q2 above is NO, why have you not made the attempt to invest? Because.....

- ☐ I don't have the money to invest
- ☐ I can't decide which investment vehicle to invest in
- ☐ I feel inflationary pressures will eat into my capital
- ☐ I don't believe in investment managers
- ☐ Others (Please specify)..

....

Q5 Have you heard about mutual fund investment (*mutual funds: are pools of funds that are managed on behalf of investors by a professional money manager*) before?

YES ☐ NO ☐

Q6 I was made aware of mutual fund investment via ....

	1	2	3	4	5
The media (newspapers, TV. etc)	☐	☐	☐	☐	☐
Friends, family, colleagues	☐	☐	☐	☐	☐
An Intermediary (broker/financial advisor)	☐	☐	☐	☐	☐
Mutual Fund Company	☐	☐	☐	☐	☐

Q7 In order of preference please state which of the following investment vehicles you would invest your money were you to have surplus funds.

	1	2	3	4	5
Treasury Bills	☐	☐	☐	☐	☐
Fixed Deposit	☐	☐	☐	☐	☐
Savings Account	☐	☐	☐	☐	☐
Mutual Fund	☐	☐	☐	☐	☐
Company Shares	☐	☐	☐	☐	☐
Others	☐	☐	☐	☐	☐

Q8 I have decided to invest in mutual funds….

	1	2	3	4	5
As part of my personal financial and retirement plan	☐	☐	☐	☐	☐
For a specific savings goal (e.g. to purchase a car, build a house, pursue a profession, open a new business etc)	☐	☐	☐	☐	☐
To add to my savings (for a rainy day)	☐	☐	☐	☐	☐
To temporarily park surplus funds (short term)	☐	☐	☐	☐	☐
To speculate	☐	☐	☐	☐	☐

Q9 The following benefits of mutual fund investment appeal to me:

	1	2	3	4	5
Safety of investment	☐	☐	☐	☐	☐
Reporting on performance	☐	☐	☐	☐	☐
Transparency	☐	☐	☐	☐	☐
Affordability	☐	☐	☐	☐	☐
Tax effectiveness	☐	☐	☐	☐	☐
Professional management	☐	☐	☐	☐	☐
Convenience and liquidity	☐	☐	☐	☐	☐

Q10 Many people see poverty as the shortage of common things such as food, clothing, shelter and safe drinking water. Do you share this view?

1	2	3	4	5
☐	☐	☐	☐	☐

Q11 Which of the following groups do you think should be responsible for the eradication of poverty in the society?

☐ Government
☐ The one who is poor
☐ NGOs
☐ Others (Please specify)……………………………………………………………………

Q12 What do you think is the single biggest reason why the individual investor has become aware of and started investing more in mutual funds in the past five years?

☐ More publicity
☐ Better fund performance
☐ More products available
☐ Financial advisors/broker's knowledge improved
☐ Other (Please specify)……………………………………………………………………

Q13 Your age:

- ☐ Younger than 20 year
- ☐ 20 – 25 years
- ☐ 26 – 30 years
- ☐ 31 – 35 years
- ☐ 36 – 40 years
- ☐ 41 – 45 years
- ☐ 46+ years

Q14 Your gender:

☐ Male ☐ Female

Q15 Your educational background:

- ☐ JSS/Middle School
- ☐ Secondary
- ☐ Teacher/Nurses' Training
- ☐ Polytechnic
- ☐ University
- ☐ Other (Please specify)..

Q16 In your view can an unemployed individual undertake investment activity?

☐ Yes ☐ No ☐ Not Sure

Q17 If your answer to Q16 above is Yes, how can such an individual (say a student or an apprentice) set aside money to invest?

- ☐ By contributing to "susu" scheme to raise enough money.
- ☐ By setting aside part of pocket money.
- ☐ By investing part of SSNIT loan scheme proceeds.
- ☐ By selling off part of personal belongings which are no longer needed.
- ☐ Others (Please specify)..

Q18 Is there any relationship between investment and poverty reduction?

....

....

Q19 Do you think mutual fund investment can be used as a poverty reduction tool?

☐ Yes ☐ No ☐ Not Sure

Q20 Please indicate how mutual fund can help reduce poverty.......................................

....

....