PRESIDENTIAL ELECTION POSTPONMENT AND STOCK PRICE VOLATILITY IN NIGERIA: A BEHAVIOURAL EMPIRICAL SCRUTINY

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ABSTRACT

The empirical work examined the effect of deferment of 2015 Nigerian presidential election on stock price volatility in Nigeria. Precisely, the researchers used ''All Share Price Index (ASI) and stock prices'' as the study's variables. The study utilized an estimation window of three trading days previous to the announcement, and three trading days after the announcement, conventional event study methodology was used. In order to evaluate the cumulative abnormal volatility (CAV) of stock returns, the study applied GARCH. The empirical findings revealed evidence of stock price volatility, as a result of postponement effect. The study therefore recommends that, strong institutional framework that guarantees political stability is necessary. Importantly, government and policy makers, particularly financial and capital market regulators should strengthen the regulatory and supervisory mechanisms to enhance the operations of the capital market towards progressive growth path.

Keywords: *Presidential election; Postponement; stock price volatility; All Share Price Index (ASI).*

1. Introduction

A central issue in behavioural finance literature relates to asset pricing and volatility with respect to varying socio-economic and political activities (events), as well as behavioural actions of economic agents or individuals in response to certain events. Political events have important place in the financial market, with regard to stock price movement, returns and volatility (Savita, 2015). Thus, examining the place of elections is of particular importance in behavioural finance. Models of behavioral finance explain that, the volatility of stock can be influenced by heterogeneous events, news of abrupt or sudden policy reversals. News or postponement of elections has been found to influence the pattern, value and performance of stock market activities, particularly their volatility. Given so, the financial market moves in the direction of prevailing or current information relating to political events. The market generally responds to new political information that may affect the economic future of a country (Adams & Agomor 2015). In order to do this, market participants and investors reassess their predictions for an economy in light of recent political developments or election results.

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The term "good news" refers to information that is thought to be favorable for an economy's future, especially the financial market, whereas "bad news" refers to information that is not favorable.

Political events, in particular, exert important influence on stock market, given that investors and the general public would engage in wait-and-see before making important investment decisions (Adams & Agomor 2015).

Following this, events such as elections, election postponement, resignations, coup d'état, etc. could affect stock market activities. Among political events, presidential tend to exert more influence than others because of its ability to shape the general course of the economy. Presidential election news or postponement could therefore send significant signals to the market and may elicit stock price reaction (Osaze, 2007). Market participants typically have expectations about the probability distribution of the policies that will be enacted depending on the results of the elections prior to the elections. As election results approach and become more certain or ambiguous, these probabilities may be changed multiple times. *De facto,* information is the pivot around which the stock market revolves (Osaze, 2007).

It is worthy of note that the presidential and national assembly elections earlier scheduled for February 14th were postponed to March 28th, 2015, while that of the state governorship and State Houses of Assembly elections were postponed from February 28th to April 11th, 2015, in a public announcement (Ndaliman, et al. 2021). The impetus of electioneering campaign had peaked, prior to the postponement, as there was high level of uncertainty in the nation in the build up to February 14th. The news of the postponement announced of February 7, 2015, was greeted with mixed feelings and widespread condemnation. Given the place of presidential elections in Nigeria, the news of its postponement would definitely have some effects on stock price, particularly its volatility (Ndaliman, et al. 2021).

The relationship between political events and economic results or asset prices has been the subject of several research from both developed and emerging economies (see Leblang & Mukherjee, 2005; Knight, 2006; Eriki & Eboigbe, 2012). These studies looked at how elections affected stock prices and economic performance, but they did not take into account the occurrence of election postponement announcements. While the study by Eriki & Eboigbe (2012) examined the impact of presidential election results on stock prices in Nigeria, using the event study methodology, the focus was however not on postponement of presidential election in Nigeria. Following this, there exists a yawning gap in literature on the impact of postponement of election (presidential) on stock price s volatility in Nigeria. It is the recognition of this perceived gap that warrants this study.

Statement of Research Problem

Economic and financial factors are significantly impacted by presidential elections. To this aim, because presidential elections are the mother of all elections, their significance typically has an impact on important macroeconomic indicators, including production, savings, investment, inflation, exchange, etc. People typically respond to information or news about the postponing of the presidential election by engaging in economic and financial activity. Such postponement usually create uncertainty in the macroeconomic and political environment, as investors, who are mainly risk-averse will engage in ‘’wait and see’’. In particular,

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stock market reacts to news of postponement of presidential election since such postponement creates uncertainty syndrome, such that may induce market participant to engage in speculative activities and destructive expectational behaviours. The abruptness of such information in the market place immediately the announcement of the postponement is what usually induces stock market variability.

Although, the empirical relationship of the impact of presidential election postponement on economic activities has been investigated, (see Vuchelen, 2003; Bohl & Gottschalk, 2005; Eriki & Eboigbe, 2012), there is however scarcity of empirical works on the effect of such postponement on the volatility of stock market. Thus, most of the studies base their emphasis on stock market reactions to presidential elections postponement, without examining it in term of the more problematic issue- stock market volatility. Recognition of this gap in literature is the motivation of this study. The objective of this study was to examine the implication of postponement of 2015 presidential election for stock price volatility in Nigeria.

2 Literature Review

Concept of Presidential Elections

Election is the process by which citizens choose their leaders and in doing so, contribute meaningfully to the identification of the kind of political, social and economic development they expect and desire (Albert, 2007). Every four years, there are presidential elections in Nigeria. There is a lot of uncertainty around the election process, which has effect on stock market, and the overall economy. Investors closely monitor developments as election years approach in a nation until they are eventually over. Presidential elections are considered as the most powerful political events and the bedrock of any economy; hence its influence on stock price volatility is of a great concern. (Osamwonyi, & Omorokunwa, 2012).

Theoretical Literature

Efficient Market Hypothesis (EMH)

The literature on stock market efficiency, as it relates to efficient market hypothesis (EMH) particularly with respect to information (Samuelson, 1965; Fama, 1970; Fama, 1991) defined an efficient market as one in which asset (securities) prices (quickly) and fully reflects all available information. Fama (1970) classified efficient markets into three (3) interrelated versions (weak, semi-strong and strong forms. Reviewing the notion of efficient market Hypothesis (EMH), he made a case for the importance of empirical investigation of market efficiency, applying event study methodology, to analyze the effect of publicly available information, such as election postponement and election results on stock prices/returns. Fama (1970) categorizes the nature of market efficiency into three subsets: weak form efficiency, semi-strong form efficiency and strong form efficiency. It is hard for investors to generate any additional money utilizing past prices due to weak form efficiency. Investors who adhere to weak aspect of efficiency think market accurately represents all historical data, including prices, trading volume, prior financial statements, etc. If everyone has access to market information and there is no possibility for excessive gains, the market is considered to be weakly efficient (Fama,1970).

A semi-strong efficient market prevents investors from maximizing returns by utilizing readily accessible public data. Semi-strong type portrays that, no publicly available information is especially odd, as a result, it

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cannot be used by market participants to generate abnormal returns. As a result, market prices already account for all recently discovered information. Prices reflect all available knowledge, both public and private (insider). This is the strong form of market efficiency. Essentially, this type of efficiency highlights how investors are unable to increase their profits even having earlier access to insider knowledge (Fama,1970).

Empirical Literature

Floros (2002) investigates the effect of the Greek political elections on the performance of Athens SE. Results indicate that two months' prior the election, Greece's stock returns rise while volatility falls. In a similar vein, stock returns decline and fluctuations rise a month before an election, yet stock returns rise three months later.

The GARCH-class of models were employed in this work by Harrison & Paton (2004) to analyze stock market returns. The study analyzed data on the stock markets in two transition economies. The findings demonstrate that the presence of "fat tails" can have significant effects on inference in the study of stock market returns.

Li & Born (2006) examines presidential election uncertainty and common stock returns in the United States. The study incorporated use of polling data on candidate preferences to create an evaluation of uncertainty of election. The findings demonstrate that stock market volatility (risk) and average returns increase in the absence of a candidate with a clear lead in the polls.

Mehdian, et al. (2008) conduct an empirical study of the response of investors to unexpected political and economic events, such as the Turkish elections. The empirical results show that elections significantly harm Turkey's economy when residuals are generated using the ordinary least squares (OLS) method.

Additionally, atypical returns are notably negative before to the election, according to Chuang & Wang (2009). It is a given that market returns and volatility during an election season behave differently in different countries. The various aspect of prediction of election results among nations is the basic source of these discrepancies.

In their 2009 study, Wong & McAleer chart the US stock market's presidential election cycle, between 1965 to 2003. The U.S. four-year presidential election cycle was closely watched by stock prices. The empirical findings proved that, ‘’Republican Party’’ may have had more reason than its democratic counterparts to actively manipulate policies in order to gain reelection. Ironically, bullish stock market runs frequently correspond with periods during Democratic administrations. The US stock exchange abnormality caused by the presidential election cycle may be advantageous for investors.

The relationship between elections, the institutional setting, effective leadership, and economic growth in Spain is examined empirically by Avellaneda (2010). Using a variety of econometric methodologies, the results show that having stable, free, and fair elections has a beneficial impact on economic growth because it increases trust and credibility.

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Ling-Chun (2011) looks at how the presidential election has affected Taiwan's economy, especially the stock market. The findings demonstrate that, PEs cause positive (short-run) abnormal returns prior to elections, signaling an electoral bull-run, and that abnormal returns increase dramatically, when the intended incumbent government is not elected.

The impact of election cycles on the stock market is examined by Altin (2012). The study looked at the stock exchanges in America and Japan as well as 12 different European nations. Election seasons have an impact on financial markets, according to the findings. Stock exchanges are generally expected to increase before of elections and decline afterwards. 45 of the 65 viewed electoral cycles had this circumstance. Different outcomes for each voting era are produced by statistically significant pricing anomalies.

Eriki & Eboigbe, (2012) examine the relationship between presidential elections under the democratic dispensation and stock market prices. Employing descriptive statistics and the t-test, and finally using the OLS to generate the residual, the results show that presidential elections in Nigeria have significant negative effect on stock prices on account of the low patronage and capital flight during elections period due to lack of confidence in our political activities.\

Babayo, et al. (2017) examine the nature of the 2015 Presidential Election and the major factors that made the outcome of the election different from the previous Presidential Elections in the country. The results demonstrate that, the 2015 PE in Nigeria differed somewhat from those held in the past due to a shift in voter behavior from issue-based politics, which included corruption, insecurity, poverty, and unemployment, to issue-based politics based on religious affiliation, ethnicity, regionalism, and nepotism.

Osamwonyi & Omorokunwa (2017) investigate the effect of presidential elections on investor's portfolio selection in Nigeria from 2003 to 2011. The potential impacts of the election on the nation's stock values were determined using regression analysis. The results indicated that, stock market performance had a significant negative impact on the anomalous returns for tchosen companies listed on the NSE.

Methodology

The population comprises securities quoted on equity arm of Nigerian Exchange Limited (NGX). Suffice it to say that, this figure changes from time to time, as new securities get listed and some gets delisted. To take cognizance of baseline market efficiency or otherwise, we select a convenient sample of about the most liquid/actively traded securities on the floor of the exchange.

Following the study conducted by Brown and Warner (1985); Bialkoski et al. & Aik Ng (2015), this study adopts the longitudinal research design, within the volatility event study methodology. The GARCH (1,1) procedure was used to capture the cumulative abnormal volatility (CAV) stock returns.

Arch and Garch Models

Following Harrison & Paton (2004), the first step in determining the level of stock market informational efficiency or otherwise, is to ascertain if past movement in asset prices can be used to forecast abnormal returns or profitable opportunities. The usual starting point for investigating the existence of informational

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efficiencies or inefficiencies is to establish whether historical movements in securities prices can be used to forecast (predict) profitable opportunities (Harrison & Paton, 2004).

In this study, present returns should follow a random walk process under the assumption that, capital market is efficient. The impact of time-varying volatility, or Autoregressive Conditional Heteroscedasticity (ARCH), must be considered when estimating such models (Engle, 1982). If this isn't done, estimations are likely to be subjectively biased and inconsistent. A variety of models are available to capture ARCH effects. The Bollerslev (1986)-introduced Generalized ARCH (GARCH) models are the most often used in the estimate of stock returns. Time-dependent volatility is calculated in GARCH models as a function of prior volatility, which is represented by the lagged values of the squared regression disturbances and conditional variance. The amount of lags typically determines the order of a particular GARCH model.
Generally speaking, the GARCH model was utilized to produce the volatility in order to represent the effect of presidential election events on stock return volatility is:

$$R_{i,t} = \omega_0 + \beta R_t^* + \varepsilon_{i,t}, \qquad \varepsilon_{i,t} \sim N\left(0, h_{i,t}\right) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (1)$$

$$h_{i,t} = \gamma_0 + \gamma_1 h_{i,t-1} + \gamma_2 \varepsilon^2_{i,t-1} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (2)$$

Where $R_{i,t}$ is as earlier defined and R_t^* is the ASI on day t. $\varepsilon_{i,t}$ represents the stock index returns and $h_{i,t}$ represents the conditional volatility. For each t>0, the values of h_(i,t) depend on the election's immediate effect as measured by _(i,0). By restricting the volatility forecast to the data set that is accessible before the occurrence, this problem can be readily fixed. Because of this, the volatility benchmark for the k-th day of the event window is specified as a k-step-ahead estimate of the conditional variance using the data set available on the final day of the estimation window t*:

$$E[h_{i,t^*+k} / \Psi_{t^*}] = \hat{\gamma}_0 \sum_{j=0}^{k-1} (\hat{\gamma}_1 + \hat{\gamma}_2)^j + (\hat{\gamma}_1 + \hat{\gamma}_2)^{k-1} \hat{\gamma}_1 h_{i,t^*} (\hat{\gamma}_1 + \hat{\gamma}_2)^{k-1} \hat{\gamma}_2 \hat{\varepsilon}^2_{i,t^*} \dots . (3$$

The daily continuously compounded return for individual stock on day to ($R_{i,t}$) is given as;

$$R_{i,t} = Log\left(\frac{Stock\ Price_{i,t}}{Stock\ Price_{i,t-1}}\right) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots eqn\ (4)$$

Where i denotes the individual stock price, and subscript t denotes the current time period. GARCH (1,1) model was used to generate residual and variance of $R_{i,t}$, so as to capture the impact of presidential election events on stock returns volatility:

$$R_{i,t} = \omega_0 + \beta R_t^* + \varepsilon_{i,t}, \qquad \varepsilon_{i,t} \sim N\left(0, h_{i,t}\right) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (4)$$

$$h_{i,t} = \gamma_0 + \gamma_1 h_{i,t-1} + \gamma_2 \varepsilon^2_{i,t-1} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (5)$$

Where $R_{i,t}$ is as earlier defined and R_t^* is the all share index (ASI) on day t. $\varepsilon_{i,t}$ depicts the company or stock part of returns' index and $h_{i,t}$ represents the conditional volatility.

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Using the maximum likelihood method for the time frame just before the event window, equations 4 and 5 are jointly approximated. An event window within 3-day will include the day of the event. One must take into account the variance in (i,t) within date of event, with respect to its typical non-event level in order to calculate anomalous volatility. Since it can show what the volatility would have been in the absence of the election, GARCH model may be used as a benchmark. But there must be a word of warning. Equation (5) does not yet produce an event-independent projection; instead, a forecast of one-step forward. For each t>0, the values of h_(i,t) depend on the election's immediate effect as measured by _(i,0). By restricting the volatility forecast to ata set that is accessible before the occurrence, this problem can be readily fixed.

Because M_t equals one, demeaned standardized residuals exhibit a typical normal distribution under the null hypothesis. As a result, (M _t-1) represents abnormal percentage change in volatility on any day t of the event window. The cumulative abnormal volatility (CAV) can be estimated for an event window (n_1, n_2). as

$$CAV_{(n_1,n_2)} = \left(\sum_{t=n_1}^{n_2} \widehat{M}_t\right) - (n_2 - n_1 + 1) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (6)$$

In this study, the null hypotheses are given as;

(i) Presidential election postponement does not have any significant effect on stock returns volatility in Nigeria. i.e.$CAV_{((n_1,n_2)} = 0$

(ii) Presidential election postponement does not have any significant impact in cumulative abnormal stock volatility return in Nigeria. i.e.$CAV_{((n_1,n_2)} = 0$

4. Data Presentation and Analysis

The study seeks to empirically investigate effect of 2015 presidential election postponement announcement on stock returns volatility in Nigeria; and in particular, whether the news of the postponement had any significant effect on stock market volatility and/or whether the postponement news induced volatility in the market. The presidential election earlier slated for February 14th was postponed on February 7th, 2015 to March 28th, 2015. In general, the announcement of unexpected change of event or sequence of events is deemed to induce fluctuation or variability in stock behaviour. Thus, the focal point of analysis is to examine whether stock price fluctuated on that postponement day or effect of postponement on stock market volatility.

Studies on cumulative abnormal volatility seek to investigate whether the news effect or postponement effect induces variability in stock or whether it heightens volatility. The study employs the SEM, using All Share Index (ASI) and in particular, the volatility in ASI on that fateful day. In line with the conventional and standard approach for conducting event studies, the individual all share index cumulative abnormal volatility (CAV) is aggregated across after generating the volatility, using GARCH.

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Descriptive Statistics

Sample data on variables utilized in the analysis were displayed in Table 1, with descriptive statistics. The all-share index's mean volatility is roughly 0.004 (or -0.4%), and the cumulative abnormal return's mean volatility is 0.0031 (-0.31%), as can be shown. The values for cumulative abnormal volatility and average volatility are, respectively, -0.020 (-2.0%) and -0.0307 (-3.1%), whereas the values for average volatility and average volatility are, respectively, 0.06 (-6%) and 0.08 (-8%). Indicative of the rate of stock volatility resulting from the postponement is the relative difference between the minimum and greatest values of abnormal volatility and CAV. Additionally, the table demonstrates the skewness of the distribution of abnormal volatility (variability) and cumulative abnormal volatility. The tail of distribution is measured by skewness. A distribution of abnormal returns that is negatively skewed and has a longer left tail has a skewness value of -0.0632, which suggests this. However, the cumulative anomalous volatility distribution's skewness value of 0.7103 is obvious proof that it is positively skewed and hence has a longer right tail.

Table 1: Descriptive Statistics

Statistics	AV	CAV	AAV
Mean	0.0040	-0.0331	0.0003
Maximum	0.0601	0.0802	0.0131
Minimum	-0.0203	-0.0307	0.0230
Skewness	-0.0632	0.8021	-0.0413
Kurtosis	0.9104	0.7103	0.3541
Doonik-Hansen Prob	0.7241	0.29504	0.6110
Shapiro- Wilk Prob	0.18540	0.0651	0.4772
Lillierfors Test Prob	0.5013	0.1982	0.3501
Jacque-Bera Prob	0.7321	0.99272	0.8870

Source: *Author's Compilation (2024).*

Note: AV – event window abnormal volatility, CAV– event window cumulative abnormal volatility AAV – parameter estimation window average abnormal volatility.

The table of descriptive statistics also showed a kurtosis of roughly 0.91 for abnormal volatility, indicating that the distribution is platykurtic and displays flatness at the surface. Since the number is below the threshold of three, the approximate kurtosis value of 0.713 for the cumulative abnormal volatility also points to platykurtosis, or flatness of the distribution at the surface. The table provides estimated Doornik-Hansen test probabilities for the anomalous volatility of 0.72, Shapiro-Wilk W-test probabilities of 0.29, Lilliefors test probabilities of 0.50, and Jarque-Bera probabilities of 0.732 (all statistically insignificant). According to this, the cumulative anomalous volatility must likewise follow a normal distribution. Briefly put, the descriptive statistics revealed that, AV and CAV were not typical. The Dornik-Hansen test is 0.296, Shapiro-Wilk W-test is 0.065, Lilliefors test probability is 0.198, and Jarque-Bera probability is 0.992, according to the summary statistics for the cumulative abnormal volatility.

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Table 1's third column displays descriptive statistics for AAV over the parameter estimate timeframe. The mean value of the average anomalous volatility, as can be seen, is approximately 0.0003, or 0.03 percent. The average anomalous volatility is lowest at -0.013, or (-1.3%). While 0.023, or 2.3%, was the highest value, was. The amount of variation in the return series can be inferred from the relative difference between the minimum and greatest values of average abnormal return. The table also displays the average anomalous volatility distribution's skewness, which was -0.0413, showing that it is negatively skewed, and so, has a longer left tail. An approximate Doornik-Hansen test probability of 0.611, a Shapiro-Wilk W test probability of 0.477, a Lilliefors test probability of 0.350, and a Jarque-Bera probability of 0.8870 are all displayed in the table when it comes to normalcy; nevertheless, all of these probabilities are statistically insignificant. The null hypothesis, according to which average abnormal return series has a normal distribution, is not refuted as a result. As a result, findings from the various normality tests showed that the average anomalous return series is normally distributed.

Analysis of Abnormal and Cumulative Abnormal Volatility

In light of this, the significance of abnormal volatility on the day the election postponement announcement was made public, significance of cumulative abnormal volatility on that day, and significance of cumulative abnormal volatility three trading days later were all examined using the non-parametric t-test. Table 2 displays the cumulative abnormal volatility over the event window as well as the abnormal volatility itself (in percentages). The significance of aberrant volatility over three periods was examined for utilizing the t-test to test the study's hypotheses. The t-statistic was used in each example to determine whether there was a significant difference between zero and the abnormal volatility or cumulative abnormal volatility over the interest period. These three points include post-postponement announcement day abnormal volatility, post-postponement announcement day CAV, and post-postponement announcement day average AVS.

Table 2. Three-day Window Abnormal Return and Cumulative Abnormal Return

Day	AV	CAV	DAY	AV	CAV
-3	-0.0118	-0.1804	1	0.000	-0.000
2	-0.0391	0.0142	2	0.0097	-0.0731
-1	0.1135	0.0180	-3	-0.0117	-0.022***
0	-0.0436**	-0.1482***			

Source: *Author's compilation (2024).*

The notations AR, which stands for "event window abnormal return," and CAR, which stands for "event window cumulative abnormal return," signify significance at 5%, 10%, and 1% level.

The abnormal return seen on day 0, was used to test the null hypothesis that there wouldn't be any substantial abnormal returns on the announcement day during the three-day event frame. The standard deviation was used to determine whether the anomalous return of -0.044, or -4.3, was significant. The outcome showed a test statistic of -2.35, which was significant at 5%. The outcome thus revealed that the null hypothesis—

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according to which the extraordinary volatility displayed by stock prices on the postponement announcement day is not significantly different from zero—was rejected.

Accordingly, it can be inferred that when the election postponement was announced, the all-share price index fluctuated and the investors in these companies expressed uncertainty. Additionally, the outcomes provide proof that negative cumulative anomalous volatility persisted for three trading days following the postponement day. Over the period after the postponement announcement day, a significant CAV of about -0.0148 or -1.48 percent was noted. This conclusion indicates that the trend of volatility in the Nigerian stock market persisted after the information was made public.

5. Conclusion

The stock market, in example, may be significantly impacted by the postponement of an election, as can other economic and financial factors. The volatility of equities is a significant channel via which unexpected and impulsive political development can influence the stock market. By inducing volatility (vacillation) in stock market activities, investors become uncertain of the financial environment, (i.e. investment uncertainty). Thus, excessive fluctuation (volatility) in asset prices in the stock market owing to political instability (election postponement) has the capacity to generate unfavorable patterns that is detrimental to overall performance of the stock market. In fact, such undue vacillations could generate speculative patterns that will subject the stock market to highly destabilizing risky situations.

5.1 Recommendations

In this regard, stable political environment supported with sound institutional structures are important to enhancing the stability of the stock market. This position is supported by (Acemoglu, 2005; Avellaneda 2010). The empirical findings of this study show evidence of stock price volatility (variability) immediately after the postponement news was made, and in particular, significant volatility three days after the postponement, apparently due to the uncertainty it induced in the market. For the stock market to maintain stability and growth, the political and economic environment must be certain and devoid of abrupt election postponement or sudden change of economic policies, which are unanticipated and impetuous. It is only through this that investor confidence and credibility of the stock market can be built, as it will eliminate propensities for abnormal return and consequently guarantee the ideas of an efficient market.

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