FACTORS INFLUENCING INDIVIDUAL INVESTORS’ PARTICIPATION IN THE NAIROBI SECURITIES MARKET. A CASE OF ADVOCATES IN NAIROBI COUNTY, KENYA.

BY

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UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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CATHERINE WENDO

A Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirements for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SUMMER 2015
STUDENTS’ DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University – Africa for academic credit.

Signed: ___________________________   Date: ___________________________
Catherine Wendo (ID No: 642957)

This project report has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________   Date: ___________________________
Kepha Oyaro

Signed: ___________________________   Date: ___________________________
Dean, Chandaria School of Business
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First and foremost, I would like to thank God Almighty for enabling me to undertake this program successfully.

I would like to thank my supervisor, Mr. Kepha Oyaro for his guidance, professional support and time taken to offer advice as I carried out the research for this project. I would also like to express my gratitude to my colleagues at USIU and the faculty who offered their support and words of wisdom during my studies. It would not have been the same without each and every one of you.

I would also like to thank the respondents who took time off their busy schedule to offer their opinions on the research work and completed the questionnaire. Their assistance and cooperation was of great value and truly appreciated.
DEDICATION

I dedicate this project to my family and friends for their support. A special thanks to my mother, Pauline Owidi, who always taught me the value of education and inspires a spirit of excellence in me and my sister, Morna Adhiambo, for her support and love. I also dedicate this work to my friends Nkatha, Karimi, Betty, Selina and Dickens for their encouragement and patience throughout the process. They have been a true inspiration and light in my undertakings.
ABSTRACT

This study focused on the factors that influence participation at the Nairobi Securities Market among advocates in Nairobi County in Kenya. The study aimed at achieving the following specific objectives: to determine the individual investment objectives and their risk profiles; to determine the factors that influence individual investment decisions and to establish the level of awareness of investing in the Nairobi Securities Market.

The study employed descriptive survey research design and relied on primary sources of data. The target population was advocates practicing within Nairobi County and a sample size of 105 advocates was selected through simple random sampling technique. The data for the study was collected through structured questionnaires administered to the sampled advocates. The questionnaires were designed to determine the behavioural finance among individual investors, which made it easier to get adequate and accurate information necessary for the research. Data was collected and subsequently analyzed using the Statistical Package for the Social Sciences (SPSS) and Microsoft Excel. Frequencies and percentages as well as mode as a measure of central tendency were used for analysis of the data. The analysis of variance (ANOVA) test was used to determine whether there are any significant differences between the means of different groups interviewed.

The study revealed that most investors are fundamentally risk averse and preferred to invest in real estate as opposed to the stock exchange. The study also shows that savings and investment ratios in Kenya are still low with majority of the people setting aside only a quarter of their net income for investment. The results of the study indicate that people mostly invest for capital growth and preservation, for sustainable long-term growth and a combination of income and capital growth. However, it was established that most people lack knowledge and skills that can enable them to make sound investment decisions on the securities market thus they usually rely on professional and investment advisors expertise when making decisions. In addition, the findings of the study also show that investment decisions are influenced by popular opinion in the market, recent trends in returns and profitability and by the opinions of friends and colleagues.

The study concluded that a significant number of investors are already investing in the securities market. However, their level of active trading was found to be very low because most of them are one–off speculative buyers who acquire shares and even forget that
they have them in their portfolio, resulting in such shares not being traded in the market. They should not only acquire but also trade in the securities acquired.

The study recommends that more effort by the government and brokerage firms should be made towards educating the public and increasing awareness on investment opportunities available in the securities market. Financial markets services should also be made available to the small scale investors in the rural areas. Furthermore, the government should also work closely with the other governments within the region towards merging the national securities markets into regional exchanges as a solution to small market sizes and low trading volumes. The researcher also recommends further research on other factors other than the ones mentioned in the study, as well as a focus on other professionals other than advocates.
TABLE OF CONTENTS

STUDENTS’ DECLARATION ........................................................................................................... ii
COPYRIGHT .................................................................................................................................. iii
ACKNOWLEDGEMENT ................................................................................................................ iv
DEDICATION ................................................................................................................................... v
ABSTRACT ....................................................................................................................................... vi
TABLE OF CONTENTS .................................................................................................................. viii
LIST OF TABLES .......................................................................................................................... xi
LIST OF FIGURES ........................................................................................................................ xii
ACRONYMS AND ABBREVIATIONS ............................................................................................ xiii

CHAPTER ONE .............................................................................................................................. 1

1.0 INTRODUCTION ..................................................................................................................... 1
1.1 Background of the Study ........................................................................................................... 1
1.2 Statement of the Problem ......................................................................................................... 4
1.3 General Objective .................................................................................................................... 5
1.4 Specific Objectives .................................................................................................................. 6
1.5 The Significance of the Study ................................................................................................ 6
1.6 Scope of the Study ................................................................................................................... 7
1.7 Definition of Terms ................................................................................................................ 7
1.8 Chapter Summary ................................................................................................................... 8
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

2.2 Individuals’ Investment objectives and Risk Profiles

2.3 Factors Influencing Individual Investment Decisions

2.4 The Level of Awareness of Investing in The NSE

2.5 Chapter Summary

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

3.2 Research Design

3.3 Population and Sampling Design

3.4 Data Collection Methods

3.5 Research Procedure

3.6 Data Analysis Methods

3.7 Chapter Summary

CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

4.2 Demographic information

4.3 The Individual Investment Objectives and Risk Profiles
4.4 Factors Influencing Individual Investment Decisions .......................... 38
4.5 Level of Awareness of Investing at NSE ........................................... 40
4.6 ANOVA Test .................................................................................. 45
4.7 Chapter Summary ........................................................................... 48

CHAPTER FIVE ..................................................................................... 49

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS ........... 49
5.1 Introduction .................................................................................. 49
5.2 Summary ..................................................................................... 49
5.3 Discussion .................................................................................... 51
5.4 Conclusions ................................................................................ 55
5.5 Recommendations ........................................................................ 56

REFERENCES ..................................................................................... 60
APPENDICES ....................................................................................... 66
LIST OF TABLES

Table 4.1: Kind of Investor................................................................. 35

Table 4.2: Portion of the Net Income Set Aside For Investment................... 36

Table 4.3: Preferred Investment Avenue.................................................. 36

Table 4.4: Reasons for Investing............................................................. 37

Table 4.5: Investment Decisions............................................................... 38

Table 4.6: Factors Influencing Individual Investment Decisions ...................... 39

Table 4.7: Sources of Information on the Securities Market.......................... 42

Table 4.8: Challenges Faced While Making Investments Decisions in the NSE ......... 43

Table 4.9: Assessment of Respondent’s Basic Knowledge on the NSE ............... 44

Table 4.10: ANOVA Results ..................................................................... 45

Table 4.11 Post Hoc Tests ......................................................................... 45

Table 4.12 Mean Statistics........................................................................ 46

Table 4.13 ANOVA Results ..................................................................... 46

Table 4.14 Post Hoc Results ..................................................................... 47

Table 4.15 Mean Statistics........................................................................ 47
LIST OF FIGURES

Figure 4.1: Gender Representation of the Respondents ............................................. 33
Figure 4.2: Marital Status of the Respondents .......................................................... 33
Figure 4.3: Highest Academic / Professional Qualification ......................................... 33
Figure 4.4: Age Group ............................................................................................... 34
Figure 4.5: Average Monthly Income .......................................................................... 35
Figure 4.6: Status of Investing in the NSE ................................................................. 40
Figure 4.7: Frequency of Buying and Selling Shares .................................................. 41
Figure 4.8: Rating Of Equity Securities / Shares ......................................................... 41
Figure 4.9: Personal Assessment of Financial Literacy .............................................. 42
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
</tr>
<tr>
<td>CDS</td>
<td>Central Depository System</td>
</tr>
<tr>
<td>CMA</td>
<td>Capital Markets Authority</td>
</tr>
<tr>
<td>EMH</td>
<td>Efficient Market Hypothesis</td>
</tr>
<tr>
<td>GOK</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>IPOs</td>
<td>Initial Public Offerings</td>
</tr>
<tr>
<td>KenGen</td>
<td>Kenya Electricity Generating Company</td>
</tr>
<tr>
<td>LSK</td>
<td>Law Society of Kenya</td>
</tr>
<tr>
<td>NSE</td>
<td>Nairobi Stock Exchange</td>
</tr>
</tbody>
</table>
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Much of economic and financial theories presume that individuals act rationally and would consider all available information in the investment decision-making process. Behavioural finance therefore has been used to throw more light on why people buy or sell stocks and even why they do not buy stocks at all (Thaler, 2003). There is an assumption within behavioural finance that uniqueness of individuals, market and information structures influence their investment decision. Behavioural finance implies that the use of market behaviours of investors explains the reason why individuals buy and sell stock derives from the psychological principal of decision making (Werah, 2008).

The focal point of behavioural finance is in the manner individuals construe and act upon information while making investment decisions (Shefrin, 2010). Reilly and Brown (2006) define investment as a commitment of funds for a period of time in order to derive a rate of return that will compensate the investor for the time during which the funds are invested, for the expected rate of inflation during the investment horizon and for the uncertainty involved. Therefore, investment decisions usually involve compromising on current consumption and deferring the usage of financial resources for greater gains in the future.

According to Pompian (2012), behavioural biases refer to the tendency of decision making that result in irrational financial decisions caused by faulty cognitive reasoning and/or reasoning influenced by emotions. Shefrin (2010) interprets behavioural finance as that study of the effects of psychology on the conduct of financial experts and the consequent outcome on markets. Singh (2010) presumed that the information structure and the characteristics of participants in the market systematically influence decisions of individual investors and market outcomes.

Investor behaviour is defined as how the investors judge, predict, analyze and review the procedures for decision making, which includes investment psychology, information gathering, defining and understanding, research and analysis. Investors need to make rational decisions for maximizing their returns based on the information available by
taking judgments that are free from emotions. Investor behaviour is characterized by overexcitement and overreaction in both rising and falling security markets and various factors influences their decision making processes (Barber & Odean, 2000).

A research carried out in Rajasthan indicated that the investment decision is influenced by the demographic factors. People have a tendency of having different attitudes towards decision making; some seek risk but some are risks averse. People of different earning levels, marital status, ages, gender, knowledge and profession are bound to make different decisions (Jain & Mandot, 2012).

A study done on the Karachi stock exchange investors paid attention to the factors influencing decision making processes. Investors take friends and family recommendations and also use accounting information but majority is based upon their own will. However, the decision making process of most investors is considered inefficient because they lack the basic skills required to make such decisions (Usmani, 2011).

Investigations into the IPO market in Kenya by Fredrick (2012) showed that, on average, IPOs provided abnormal return in the immediate aftermarket to investors who purchased at the initial offering. This often leads to oversubscription of IPOs even though some of them have registered low performance in the market thereafter. The Capital Investment Group in 2008 provided a snapshot of the inconsistency in IPO short run returns to investors. The analysis showed that investors anticipated abnormal returns as evidenced in previous IPOs like Ken Gen and rushed for IPOs like Safaricom which led to an oversubscription. Eveready for instance depreciated shortly after leaving millions of investors counting their losses. This is an indicator that investors may at times make defective investment decisions as a result of cognitive and emotional prejudices as explained by theorists of behavioural finance. Olweny, Namusonge and Onyango (2012) contend that investors who have invested in the securities market before are more risk tolerant when compared to those who had never ventured into the market due to their previous exposure to market. It was concluded that the securities market positively influences the economy having studied the relationship between economic growth in Kenya and the securities market. This is because the findings of their study showed that when the NSE 20 share index increases, it is an indicator of the market’s anticipation of
greater corporate profits and higher dividends, and subsequently greater economic development.

An investment decision entails selecting from available options on how to commit financial resources now with an expectation of future returns. According to the axioms of utility theory, investors are expected to be rational and risk averse meaning that investors will often go for the investment avenues that will maximize their satisfaction (Nagy & Obenberger, 1994). The great trade off in investing is between risk and return. The gains realized from an investment over a period of time are the returns of the investment. For example, when one invests in the stocks then they receive returns when the prices increase with time or when they are paid dividends on the stocks held (Eakin, 2007).

When making an investment decision, you first begin by establishing the required rate of return. Investments usually have estimated cash flows and the price stated in the market. Then you estimate a value for the investment in order to find out whether the present market price is in line with the intrinsic value of the estimated one. Having estimated the intrinsic value of the security, the investor then compares it with the current market price and decides whether to buy the security or not. Models available for valuation of investments include the one period valuation model in which the present discounted value of the expected cash flows is determined using the required return (Reilly & Brown, 2006).

While investing in stocks, there are two types of markets involved; the primary and secondary markets. A primary market is a financial market in which new issues of securities are sold initially by the corporation while a secondary market is a financial market in which securities that have been previously issued can be resold (Eakin, 2007). The stock exchange market is a secondary market in which shares that had been issued previously are traded and it is necessary because it makes the financial instruments liquid by providing a ready market for those who want to buy and those who want to sell as well. The market publishes useful information in statistical and summary form about various companies for guidance and also keeps an eye on the financial affairs of every company whose shares are traded through it.

The Nairobi Securities Exchange (NSE) is the leading securities market in East Africa and is made up of both the primary and secondary markets where trading takes place. It
stimulates economic progression and development by mobilizing resources in an economy (Kimani, 2012). Following established regulations, the capital market ensures continuous liquidity in the market since it provides a platform for exchange of financial assets. However, there are clear indications that the macroeconomic environment has been quite volatile, slowing down a sustained stable financial market for long term resource mobilization as per an analysis of the NSE performance for the period between 2008 and 2010 using secondary data (Chelagat, 2011).

An “advocate” means any person whose name is duly entered upon the Roll of Advocates or upon the Roll of Advocates having the rank of Senior Counsel and includes any person mentioned in section 10 of the Advocates Act Cap 16. In the context of this study, advocates who were considered comprised of those who were active practice as per The Law Society of Kenya records. Advocates were considered for this study because of diversity in demographics in terms of age, class, tribe, race and religious background given that Nairobi is a cosmopolitan area. Advocates also have diverse income levels and access to financial resources from various sources such as banks, micro financial institutions and SACCOs.

1.2 Statement of the Problem

The securities market has for long been perceived as a preserve of the elite rich, however it has lately witnessed even the ordinary in society flocking its corridors for business. Kenyan people are now more aware of equity securities as an investment asset and an alternative to real estate and other ventures as highlighted by the oversubscription in initial public offerings (IPOs) in the recent past. When making investment decisions, it is important for an investor to choose the most viable option from the many available options. Several factors influence such decisions and it was of great importance to carry out research on the factors that majorly influence these investment decisions (Lusardi & Mitchell, 2006).

In recent past, there has been a relative increase of enthusiasm in the securities market by individual investors. However, it is alarming that the enthusiasm is again fading away with many firms experiencing net exit of individual shareholders. As a result of this, institutional investors have taken control of the market because they are the majority investors. According to the capital markets regulator, individual investors cut their
investments in equity from a peak of twenty seven percent of the market capitalization in 2008 to fourteen percent in 2010. As at the end of 2014, the total number of individual investors stands at fourteen percent of the total investors in the NSE (Aduda, Oduor & Onwonga 2012).

Most studies that have been carried out in the past have often focused on institutional investors while less attention has been given to small scale or retail investors. Moreover, almost all previous studies have been carried out in developed countries of Europe and America where the securities market is more vibrant and enthusiasm of individual investors is high. It was therefore necessary to investigate the factors that affect the participation of individual investors in developing countries like Kenya. The studies that have been done in Kenya such as Waweru and Uliana (1998), Wera (2006) and Mbaluka (2008) focused on the behavioural factors influencing decisions of individuals who are already investing in the NSE. None of the previous studies address the factors leading to low individual investor participation in the Kenyan securities market. An understanding of these factors provided an insight on the variables that influence their investment decision making and what measures can be taken in order to encourage a higher degree of savings and investment in Kenya.

Advocates in Nairobi County are characteristic of the small-scale or individual investor in the Kenyan markets. They have some disposable income from salaries, returns realized from the law firms and loans both from SACCOs and commercial banks. Investing in the securities market is an alternative to other ventures and a good alternative for that matter, since the advocates, whether employed or running their own law firms may not be directly involved in running companies in which they own shares. It was therefore necessary to carry out a research on whether they consider investing in the securities market and the factors that mainly affect their decision to invest or not to invest.

1.3 General Objective

The general objective of this study was to determine the factors that influence the participation of individual investors at the Nairobi Securities Market.
1.4 Specific Objectives

This research project discusses the factors influencing Kenyan retail investors by addressing the following research objectives:

1.4.1 To determine individual investment objectives and their risk profiles
1.4.2 To determine the factors that influence individual investment decisions
1.4.3 To establish the level of awareness of investing in the Nairobi Securities Market.

1.5 The Significance of the Study

1.5.1 Significance to the Body of Knowledge

To theory; this study contributes to the general body of knowledge in the field of finance and act as a reference material for future scholars and researchers who would like to advance their knowledge in behavioural finance and use the study to formulate their research problems. The study makes significant contributions to the area of financial economics through exploring the relationship between the various economic social, cultural, demographic and behavioural factors that influence the overall investment decisions.

1.5.2 Significance to Policy Makers

For Policy makers; it helps them to formulate appropriate strategies that help to minimize the negative impact of the factors identified. This study will therefore help both the national and county government to come up with policies that will encourage more investors to focus on the securities market.

It will also assist policy makers in financial institutions and brokerage firms to widen their client base by coming up with policies that will lead to an increase of individual participation in the securities market.

1.5.3 Significance to Investors

To investors; the findings of the study are expected to assist investors and investment managers in understanding the contribution of psychological and emotional factors towards their investment decisions as well as forming a basis for self-evaluation by
individuals in light of their previous decisions to gauge the extent of their biasness and make necessary adjustment.

1.6 Scope of the Study

The study focused on determining the factors that influence individual investors’ decisions in the Kenyan market with the main aim of finding out why people choose to or not to invest in the NSE. The target population of the study was six thousand three hundred active advocates living and working within Nairobi County. The study was carried out within Nairobi town, between the period of May and August 2015.

The researcher faced some limitations during the data collection process. One of them being the subjective nature of the study which made it difficult to verify the validity and reliability of the data collected. The researcher dealt with this limitation by guaranteeing the respondents of the confidentiality of the information provided. Also, the study focused on advocates in Nairobi County and the behaviour of this one unit of analysis may not have reflected the behaviour of other investors in other parts of the country. The researcher therefore recommended further research to be conducted in other parts of the country as well.

1.7 Definition of Terms

1.7.1 Investment

A commitment of funds for a period of time in order to derive a rate of return that will compensate the investor for the time during which the funds are invested, for the expected rate of inflation during the investment horizon and for the uncertainty involved (Reilly & Brown, 2006)

1.7.2 Individual Investors

Individual investors who buy and sell securities for their personal account, and not for another company or organization. Also known as a retail investor (Reilly & Brown, 2006).

1.7.3 Risk Profiles

The willingness of an investor to take risks and how those risks will affect their choice of investments. Investors can be classified as either conservative, whose investment horizon
is short and prefer to take minimal risk; balanced, those whose investment horizon is long enough to benefit from a balance between growth and security; or aggressive, those whose investment horizon is long enough to benefit from an aggressive growth orientation (Pompian, 2012).

1.7.4 Herding

A situation that arises when investors decide to imitate the observed decisions of others in the market rather than follow their own beliefs and information (Pompian, 2012).

1.7.5 Behavioural Finance

This is the study of how psychology affects financial decision making and financial market (Shefrin, 2001). Behavioural finance attempts to better understand and explain how emotions and cognitive errors influence investors.

1.7.6 The Efficient Markets Hypothesis (EMH)

Dictates that market prices fully reflect all available information (Fama, 1970). This means that the prices of security are presumed to reflect the effects of information based on past, current and future events in an efficient market. Therefore, efficient markets do not allow investors to earn above-average returns without accepting above-average risks (Malkiel, 2003).

1.7.7 Rational Behaviour

This implies consistent maximization of a well ordered function such as a utility or profit function (Becker, 1962). Rational theories are founded on the idea of optimization which refers to the calculation of the maximum (or minimum) of some variable across a number of alternatives or values.

1.8 Chapter Summary

This chapter introduced the study through a thorough outline of the proposal. It illustrated the significance of the study while clearly bringing out the problem statement by spelling out the four research questions. The target population was clearly defined and the time frame spelt out.
The rest of the study is organized as follows: Chapter two provided the literature review. The methodology was developed in chapter three while chapter four provided analysis of the results and the last chapter provided conclusions, policy and management implications.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews both the theoretical and empirical studies on both the standard models of finance and the behavioural models with a focus on the three specific objectives of the study; to determine individuals’ investment objectives and risk profiles, to determine the factors that influence individual investment decisions and to establish the level of awareness of investing in the NSE.

2.2 Individuals’ Investment objectives and Risk Profiles

The basic question facing all investors is which securities to invest in. Most investors according to Thaler (2003) have eight common needs from their investments: security of original capital, wealth accumulation, comfort factor, tax efficiency, life cover, income, simplicity, ease of withdrawal and communication.

Standard finance is the body of knowledge built on the pillars of the arbitrage principles of Miller and Modigliani, the Portfolio Principles of Markowitz, the Capital Asset Pricing theory of Sharpe, Lintner and Black, and the Option-Pricing theory of Black Scholes (Statman, 1999). These approaches consider markets to be efficient and highly analytical and normative.

2.2.1 Modern Portfolio Theory

Markowitz (1952) developed modern portfolio theory (MPT). This basic portfolio model suggests that the variance of the rate of return is a significant measure of portfolio risk under a certain set of assumptions related to investor behaviour. Markowitz suggested that to choose profitable investments, it is not enough to look at the relationship between risk and return. Investors should not only focus on the significance of diversification to reduce the total portfolio risk, but also learn how they can effectively diversify.

The basic assumption of the modern portfolio theory is that investors are willing to maximize their return on investment for a given level of risk. However investors are fundamentally risk averse which means that if they have to choose between two assets
with equal rates of returns they are more likely to choose the asset with the lower level of risk. Markowitz further demonstrated that because investors are risk averse they need to combine assets into efficiently diversified portfolios. MPT assumes that portfolio risk can be reduced if investors focus on the variability of expected returns and to achieve that, investors should pick assets that tend to have dissimilar price movement.

Modern portfolio theory suggests that traditional approach to portfolio analysis, selection, and management may well yield less than optimum results—that a more scientific approach is needed based on estimates of risk and return of the portfolio and the attitude of the investor toward a risk-return trade-off stemming from the analysis of the individual security (Zuckerman, 1995). Investors make two types of decisions in constructing their portfolio: the asset allocation decisions are the choice among the broad asset classes; while security selection is the choice of which particular securities to hold within each asset class (Reilly & Brown, 2006).

2.2.2 Capital Asset Pricing Model

In 1964, Sharpe extended Markowitz’s theory to introduce the notion of systematic risk and non-systematic risk. Sharpe developed the Capital Asset Pricing Model (CAPM) that considers a simplified world where all investors aim to maximize economic utility, are rational and risk averse, are price takers, can lend and borrow unlimited under the risk free rate of interest, trade without transaction or taxation costs, deal with securities that are all highly divisible into small parcels, have identical investment horizons, have identical options about expected returns, volatilities and correlations of available investments, and assume all information is at the same time available to all investors.

Sharpe (1964) found that the return on an individual stock or a portfolio of stocks should equal to the cost of capital. The CAPM model is as shown below:

\[ E(R_i) = R_f + \beta_i (R_m - R_f); \]

Where;

\[ E(R_i) \] is the expected return on the security \( I \);

\( R_f \) represents the risk free interest rate;
βi is the beta coefficient which represents how sensitive the expected asset returns are to the expected market returns;

βi (Rm-Rf) is the market premium.

CAPM starts with the idea that individual investments contain two types of risks. First, systematic risk is the risk of holding the market portfolio. These are market risks that cannot be diversified away. As the market moves each individual asset is more or less affected. To the extent that any asset participates in such general market moves, that asset entails market risk. Secondly, non-systematic risk is the risk which is unique to an individual asset. This risk can be diversified away as the investor increases the number of stocks in his or her portfolio. It represents the component of an asset’s returns which is uncorrelated with general market moves (Reilly & Brown, 2006).

Modern portfolio theory shows that non-systematic risk can be removed through diversification. The trouble is that diversification does not solve the problem of systematic risk; even a portfolio of all the shares in the securities market cannot eliminate that risk. Therefore, when calculating a deserved return, systematic risk is what plagues investors most. CAPM therefore evolved as a way to measure this systematic risk (Statman, 1994).

2.2.3 Option Pricing Theory

The model is named after Black and Scholes, who developed it in 1973. The model, assumes the option price follows a Geometric Brownian motion with constant drift and volatility. Among other more complicated variables, the formula takes into consideration the price of the underlying stock, the strike price of the option, and the amount of time before the option expires (Parhankangas & Hellstrom, 2007).

Empirical studies show that the Black-Scholes model is very predictive, meaning that it generates option prices that are very close to the actual price at which the options trade. However, various studies show that the model tends to overvalue deep out-of-the-money calls and undervalue deep in-the-money calls. It also tends to misprice options that involve high-dividend stocks. Several of the model's assumptions also make it less than 100% accurate. The model assumes: that the risk-free rate and the stock's volatility are constant, that stock prices are continuous and that large changes (such as those seen after
a merger announcement) don't occur, that a stock pays no dividends until after expiration and that analysts can only estimate a stock's volatility instead of directly observing it, as they can for the other inputs. Analysts have developed variations of the Black-Scholes model to account for these limitations (Eakins, 2007).

2.2.4 The Efficient Market Hypothesis

In 1965, Fama published his dissertation arguing for the random walk hypothesis, and Samuelson published a proof for a version of the efficient-market hypothesis. In 1970, Fama published a review of both the theory and the evidence for the hypothesis. He contended that investors can have the confidence that a current market price fully reflects all available information about a security and that the expected return based on the given price is consistent with its risk, thereby presenting the efficient market theory in terms of a fair game model. Fama separated the overall efficient market hypothesis (EMH) and the empirical tests of the hypothesis into three sub hypotheses with regards to the information set involved in each: weak-form EMH, semi strong-form EMH, and strong-form EMH (Malkiel, 2003).

The weak-form EMH assumes that existing stock prices fully reflect all available information in the security market, that is, the historical sequence of prices, data on trading volume and return rates. This information also includes other market-generated information, for example, block trades, odd-lot transactions, and transactions by specialists in the exchange. This implies that rates of return should be independent and meaning they have no relationship with past rates of return and other historical market data. This means that there should be little gain from using any trading rule that relies on past rates of return or any other past market data for the decision to buy or sell (Fama, 1970).

The semi strong-form EMH asserts that security prices rapidly change following the release of all public information. This means that current security prices fully reflect all public information. It includes the weak-form hypothesis, because all the market information considered by the weak-form hypothesis, like rates of return, stock prices, and trading volume, is public information (Fama, 1970).

The strong-form EMH contends that stock prices fully reflect all information from both private and public sources. This means that none of the investors or group of investors has
monopolistic access to information significant to price formation in the securities market. This hypothesis therefore contends that no group of investors should be able to time after time achieve rates of return adjusted above average risk (Fama, 1970).

It can be concluded that market information has very high effect on individuals’ investment decisions and this is the reason investors, tend to concentrate on popular stocks (Waweru et al., 2008). Investors’ decisions are almost always impacted by happenings in the securities market which catch their attention despite the fact that they may not be aware of whether these events will result into good investment returns in the future or not (Barber & Odean, 2000).

2.2.5 Behavioural Theories

They are based on traditional finance whereby the traditional finance model assumes that people are rational. However, psychologists challenged this assumption. They argued that people often suffer from cognitive and emotional biases and act in a seemingly irrational manner.

According to DeBondt and Thaler (2000), in its attempt to model financial markets and the behaviour of firms modern finance theory starts from a set of normatively appealing axioms about individual behaviour. Specifically people are said to be risk averse, expected utility maximizes and unbiased forecasters, that is agents make rational choices based on rational expectations. Olsen (1998) noted that advocates of behavioural finance acknowledge that the standard finance models of profit maximization and rational behaviour can be true within particular boundaries, but they assert that the model is incomplete because it does not consider the behaviour of an individual. It is argued that some financial phenomena can be better explained using models where it is recognized that some investors are not fully rational or realize that it is not possible for arbitrageurs to offset all instances of mispricing (Barberis & Thaler, 2003).

Werah (2006) did a study to survey the influence of behavioural biases on investor activities at the NSE in which the population composed of both individual and institutional investors at the NSE. The results obtained from the research suggested that the behaviour of investors at the NSE were to some extent irrational when considered from the rationality of the investors in their disregard of fundamental estimations as a result of herd behaviour, regret aversion, overconfidence and anchoring.
Mbaluka (2008) carried out a study to establish the existence of behavioural effects on individual investment decision making process. The results of the study showed that investors had their rationality affected by psychological aspects. The study found out that investors did not invest as expected as they showed unwillingness to change their portfolio in spite of unappealing macroeconomic outlook. The endowment effect was identified with investors in the experiment with 23% of them changing their portfolio mix while 77% failed to change even when the economic outlook demanded that change.

Waweru et al, (2008) investigated the role of behavioural finance and investor psychology in investment decision-making at the Nairobi Stock Exchange with special reference to institutional investors. The population in the study included all the 40 institutional investors operating at the NSE as on 30 June 2004. This covered the banks, mutual funds, pension funds, endowment schemes, investment banks, companies, collective investment schemes, and insurance companies. The study established that behavioural factors such as representativeness, overconfidence, anchoring, gambler’s fallacy, availability bias, loss aversion, regret aversion and mental accounting affected the decisions of the institutional investors operating at the NSE.

2.2.6 Model of Risk Behaviour

Sitkin and Pablo (1992) criticize the available research on risk taking in several important respects such as the inclusion of a single determinant of risk behaviour, which can yield contradictory empirical findings and produce inaccurate conclusions about determinants of risk behaviour. They combine, in an integrated model, two alternative models of risk behaviour. In their model, risk behaviour is conceptualized as “individuals’ decision-making behaviour in risky contexts” (Sitkin and Pablo, 1992, p. 12). Risk behaviour is characterized by the degree of risk involved in making decisions. A decision will be riskier where: there is uncertainty about potential outcomes; there is a high degree of variability in possible outcomes; and there is the potential for extreme outcomes.

Risk propensity is a key construct used to characterize the current tendency of a decision-maker to take or avoid risks. In contrast to previous definitions of this construct, risk propensity is conceptualized as an individual trait that can be changed over time, rather than as a stable and constant dispositional characteristic (Zuckerman, 1993). Drawing on past research, Sitkin and Pablo (1992, p. 16) outline three determinants of risk propensity:
Risk preferences (stable differences between individuals concerning whether they prefer or disdain risk). Inertia (an individual's tendency to handle risk-related situations in habitual or routine ways). Outcome history (historical patterns of success and failure in risk taking). The decision makers' risk behaviour will be consistent with their risk propensities. The other key construct related to risk behaviour that is included in the model is risk perception. Risk perception is defined as “a decision maker's assessment of the risk inherent in a situation” (Sitkin and Pablo, 1992, p. 12). The model posits, that risk perception, is influenced by risk propensity; problem framing (whether a situation is stressing potential gains or losses); top-management team homogeneity; social influences; problem domain familiarity; and organizational control systems. Individuals with risk-seeking propensity will perceive risks to be lower than individuals with risk-averse propensity. Risk perception is an important explanatory factor, which can account for variations in individual risk behaviour within the boundaries defined by risk propensity. Sitkin and Pablo’s (1992) model (or parts of it) has been confirmed empirically in several studies (Parhankangas and Hellström, 2007).

2.2.7 Cognitive Factors and Risk Perception

Contrary to the neo-classical theory of the firm, organizational scholars have recognized that decision-making in organizations is influenced significantly by behavioural factors and is rarely fully rational and profit maximizing (Akerlof, 2003). Olsen (1998) emphasizes that the study of cognition is critical for understanding strategic decision-making. Decision-making under uncertainty involves various activities such as goal formulation, problem identification, alternatives generation, and evaluation/selection and some cognitive simplification processes may affect the way decision-makers perform these tasks (Statman, 1994). Cognitive simplification processes help to simplify decision-makers' perceptions of complex problems by reducing the amount of information they must consider in decision-making. However, cognitive simplification processes and heuristics lead to cognitive biases. The use of cognitive biases and heuristics might result in acceptable solutions to problems for decision-makers in an effective and efficient manner (Baker & Hanslem, 1973).

The decision-making literature suggests that individuals can perceive different levels of risk when confronted with identical decision-making scenarios. This may be because cognitive biases and heuristics affect risk perception by influencing the way decision-
makers gather and interpret information (Barnes, 1984). Usmani (2009) stresses that a large number of cognitive biases may affect risk perception. Previous literature comments on the link between risk perception and availability, overconfidence, the belief in the law of small numbers, the illusion of control, and the planning fallacy (Baker & Wurgler, 2007). Some cognitive biases (e.g. overconfidence, the belief in the law of small numbers, and the illusion of control), which lead to the perception of lower risk, are more likely to arise in the evaluation stage of decision making and to occur in novel situations (Shefrin, 2010).

2.3 Factors Influencing Individual Investment Decisions

Various factors influence individual investment decisions because usually individuals living in the same society and having similar income levels portray varied investment behaviours. In India for example, age and gender were found to be some of the many factors that significantly influence the behaviour of investors (Sultan & Pardhasaradhi, 2012).

A study carried out in the Greek Stock Exchange established that personal financial needs, advocate recommendation, accounting information, subjective/personal and neutral information have considerable influence on investors in the Greek Stock Exchange. According to the results, accounting information has significant and personal financial needs have least influence in Greek (Merilkas & Prasad, 2003).

Much emphasis is put on theories such as Modern Portfolio Theory and Efficient Market Hypothesis by the conventional finance theories. These theories have advanced in the form of behavioural finance focusing on the cognitive and emotional factors that influence the decision making process of individuals. A research in Rajasthan indicated people with different ages, income level, knowledge, gender, marital status and occupation make different decisions; some are risk seekers while others are risk averse (Jain and Mandot, 2012).

A study by Obamuyi (2013) showed that the five most influencing factors on investors’ investment decisions in the Nigerian capital market in order of importance were: past performance of the company stock, expected stock split/capital increases/bonus, dividend policy, expected corporate earnings and get-rich-quickly. The results indicated that the five most important factors are usually categorized as wealth maximizing criteria. The
finding is consistent with the works of Obenberger (1994). On the other hand, the five least influencing factors include: religions, rumors, loyalty to the company's products or services, opinions of members of the family and expected losses in other investments.

Aduda, Oduor and Onwonga (2012) while conducting their study on “the behaviour and financial performance of individual investors in the trading shares of companies listed at the Nairobi Stock Exchange, Kenya” with the first objective of their study being, to find out how individual investors make their investment decisions, found out that, influence from friends; where most investors relied on advice from friends and colleagues (3.65 on a likert scale of 1-5) before deciding to go for stocks and; popular opinion about the market (3.58) and from recent trend in share price movements (3.53), were clear indication of herding behaviour existing in NSE. There were a variety of behaviours and financial performance of individual investors in Kenya with investors exhibiting both rational and irrational behaviour while making investment decisions.

Mwaka (2013) showed that demographic characteristics of investors determine the investors’ decision making behaviour. Investors of different demographic characteristics made decisions differently. Some investors made decisions rationally but most of them were affected by behavioural biases. The biases tested include herding, over confidence, anchoring and loss aversion. All these biases affected investors as they traded in shares though others were more prominent than others.

2.3.1 Investors Financial Literacy

There is surprisingly little empirical evidence on the relation between financial literacy and stock exchange investments at the individual investor level given its obvious importance. Derrien, (2005) investigated whether higher levels of financial literacy lead to improved equity investment decisions. He specifically examined how financial literacy affects the tendency to rely on actively managed stocks rather than passively managed companies in an event of an IPO issue of such a company. Various empirical studies show that expenses are a major determinant of share prices performance according to Gillan and Martin (2007). Thus, the study expected the expenses of funds selected by subjects with high financial literacy to be lower. Furthermore, the study analyzed the influence of financial literacy on the accuracy of the participants' return and risk estimates for their shares. Studies by, for instance De Bondt (1998), showed that subjects tend to be
overly optimistic about the return and volatility of their investments and he argued that overly optimistic performance recollections of individual investors are one reason for the large amount of money still invested in actively managed funds, because these biased views of the past impede investors learning ability.

In today’s wealthy and market-oriented environment individuals are increasingly required to take responsibility for their financial affairs (Atkinson et al, 2007). People need to be able to manage their finances in order to maintain their well-being, and in many countries for example people's pensions are highly dependent on their financial know-how. The financial authorities and companies on the field of financial services have recently expressed concerns over the level of financial awareness of consumers (OECD, 2005). The changes in the financial markets and the challenges facing private investors, underline the necessity of measuring how well individual investors are informed about the concepts and terms concerning their investment or credit market in general.

2.3.2 Financial Capability

In a contemporary world, consumers' capability to manage their finances may to a large extent affect their well-being. Consumers are expected to be active and well-informed in their financial activities and they are responsible for the consequences of their choices. Education and counseling authorities, in particular, have been interested in defining financial capability. According to the UK Financial Services Authority (FSA, 2005), financial capability consists of an individual's personal characteristics that are influenced by several factors in their micro and macro environment. The influence of environmental factors on a person's capability is essential because every person lives in a certain society and belongs to various communities. The societal environment gives the framework for consumer activities and the forum for the interaction between the actors in the society. This view focuses on both the depth and breadth of financial capability (Lusardi & Mitchell, 2006).

The depth of financial capability is related to an individual's personal characteristics: financial knowledge and understanding; skills and competence; and responsibility (FSA, 2005). The breadth of financial capability refers to the investors' knowledge, skills and responsibility about the variety of financial commodities in the market, e.g. financial services and institutions, legislation, taxation. Below, we will examine these concepts
more closely. Financial knowledge and understanding means that a person knows and understands the forms, functions and use of money and financial services. Financial knowledge and understanding are needed when a person decides upon the best way to conduct payments and take care of banking issues. Financial knowledge and understanding involve the awareness of the income available: that is, how much money there is for consumption and saving. In financial behaviour it is also relevant to understand taxation questions. Hilgert and Hogarth (2003) have suggested that financial knowledge is associated with financial practices like cash-flow management, credit management, saving and investment.

Financial skills and competence are know-how that are shown in the practices and habits formed in everyday and long-term financial management. Financial skills and competence are based on financial knowledge and understanding and are influenced by attitudes towards the use of money, i.e. spending and saving (Cornelli, 2004).

Consumers who behave financially responsibly take into account the other members in their environments, like family members, relatives and friends, when making financial decisions (Mandell, 2006). A financially responsible person understands that the decisions made always have an influence on other people or actors in the community. Responsible behaviour is also needed to provide for potential economic, social or personal risks in the future.

2.3.3 Education Level Influences

Bernheim (1998) was one of the first to emphasize that most individuals lack basic financial knowledge and numeracy. A number of studies focusing on the American population or specific sub-groups have often indicated very low levels of economic and financial literacy. The National Council of Economic Education (NCEE) occasionally conducts surveys among students and working adults to establish their financial and economic knowledge. These results indicate very low levels of basic literacy among U.S population especially students in high school (Mandell, 2004). Hilgert, Hogarth and Beverly (2003) analyze data from the Survey of Consumers in 2001 covering knowledge about credit, saving patterns, mortgages, and general financial management. In this case, one thousand respondents between the ages 18 to 98 were given a 28- question true/false financial literacy quiz. Similarly, most respondents earned a failing score on these
questions, indicating prevalent illiteracy among the population at large. Furthermore, similar findings are reported in smaller samples or among specific groups of the population.

Lusardi and Mitchell (2006) formulated a special module on financial literacy for their study in 2004. The module measured basic financial knowledge related to the workings of interest rates, the effects of inflation, and the concept of risk diversification. The results from this survey indicated an alarmingly low level of financial literacy among older individuals in the United States, specifically those aged fifty years and above. Only a half of respondents in the sample were able to correctly respond to two simple questions about interest rates and inflation, and only one-third of them able to respond correctly to a question about diversification of risk. Lusardi and Mitchell (2008) assert financial illiteracy is particularly acute among the elderly, African-American and Hispanics, women, and those with low education; a common finding in the surveys of financial literacy.

One may argue that financial literacy and retirement planning are both decision variables and that planning may also affect financial knowledge. For example, those who want to plan for retirement may invest in acquiring financial knowledge. Lusardi and Mitchell (2008) address this question using the module on financial literacy and planning they have designed for the Rand American Life Panel, which contains a more extensive set of data on financial literacy than the HRS. Specifically, they use information on financial literacy in the past before individuals entered the job market and show that those who were financially literate when young are more likely to plan for retirement later in life.

Several other studies have also established the positive relationship between financial knowledge and financial decision making in households. For example, Hilgerth, Hogarth, and Beverly (2003) contended that there exists a positive association between financial knowledge and financial behaviour. Szafranska and Matysik (2010) also established that those individuals who are unable to correctly compute interest rates out of a stream of payments find themselves borrowing more and accruing lower amounts of wealth. Eakins (2007) and Kimball and Singh (2010) found out that financially sophisticated households are more likely to participate in the securities market. Sultan and Pardhasaradhi (2012) indicated that the young and elderly are more likely to make financial mistakes because they exhibit the lowest amount of financial knowledge and cognitive ability.
2.4 The Level of Awareness of Investing in The NSE

2.4.1 Description of Capital Markets

A capital market is a place where buyers and sellers come together to trade in financial assets (Fama, 1970). Capital markets can be viewed from four different dimensions; the primary market, the secondary, the securities market and the money market. The securities market is the market in which long term financial assets are traded. Examples of securities’ market instrument are preferred and ordinary shares (preferred and common stocks), bonds and debentures. According to Reilly and Brown (2006), the money market is the market for trading in short-term instruments, such as Treasury bills, Commercial papers and trade-bills, usually through the banking sector. Due to its nature, it facilitates short-term financing and assures the liquidity of the short-term financial assets. It is also the main focus of Central Bank activities in implementing monetary policy. It is also significant in indicating changes in short-term interest rates, monetary policy and availability of short-term credit. The money market exchanges financial assets representing short-term claims with funds. The importance of the money market arises because it assures borrowers that they can, generally, obtain short-term funds quickly, and assures lenders that they can convert asset holdings into money (Eakins, 2007).

The primary market deals with new issues. Any new issue of shares and bonds is dealt with in the primary securities market. The primary money market is where short-term funds are obtained. The secondary market provides liquidity for the primary by providing a readily available market-place for securities. It also facilitates the issuance of new. If it does not exist, the issuers of the securities have to seek out a market for their own securities. The secondary securities market is mainly represented by the organized exchange. The secondary money market is where financial assets representing short-term claims are traded (Reilly, 2006).

2.4.2 Participation of Individual Investors in the Capital Market

Buying and selling of shares began in the 1920’s when the country was still under British rule. At that time, Africans were not allowed to participate in the market and therefore the market was mostly dominated by the foreigners who were White settlers. Furthermore, the market was based on informal rules and system of operations. The Nairobi Stock
Exchange was informally founded in 1954 but it is only in 1963 after Kenya attained self rule that the securities market opened its doors to Asians and Africans. During this period, the activity of the market dropped due to uncertainty about the future following declaration of independence (NSE, 2010).

Daily (2005) concluded that the past beliefs of inadequate demand for securities in developing countries tend not to exist anymore. The issue is not of demand but one of not having adequate securities in the market in the first place. Singh (2010) proposes that the increase in demand arises from speculative interest and the unsatisfied portfolio needs of financial institutions. The financial markets in developing countries are to be found in urban centers which are well served by modern communication facilities. This implies that the demand for securities in developing countries tends to be centered on elite institutions and investors only commonly found in urban centers (Mbaluka, 2008). This in effect means that the small savers in the rural areas tend not to have access or not to understand the importance of investment in securities. Encouraging demand for securities among the small savers in rural areas may itself require not only education based policies but also a concerted effort to show such potential investors that financial assets are as valuable as tangible assets such as land and buildings.

The other is the slow growth of pension and unit trust funds through which savers can invest in markets for the future. Measures aimed at encouraging the growth of both individual and institutional demand for securities are necessary. For example, in Kenya institutional investors acquire shares and forget that they have them in their portfolio, resulting in such shares not being traded in the market (Waweru & Uliana, 2008). They should not only acquire but also trade in the securities acquired. If the activity of the stock exchanges is to be increased, the growth of pension funds and unit trusts should be encouraged.

The demand for shares will of course also reflect the level of confidence that investors have in the market in the first place. The expectation of good performance and professional management of portfolios without shoddy dealing give rise to a belief that even a piece of paper can represent real wealth. The Government and other bodies must have a way of regulating the securities market in to establish and maintain public confidence. At the investor level it is argued that most of them are naive and cannot correctly interpret the information they receive (Malkiel, 2011). Most of the investors are
also said to take the view that the market is inefficient and therefore an unreliable price setter, i.e. the prices shown do not reflect fundamental values.

2.4.3 An Over-View of the Kenyan Securities Market

The Nairobi Securities Exchange (NSE) was established informally in 1954 with the main aim of enabling the mobilization of funds as a way of providing sustainable capital for financing investments in the future (NSE, 2010). The post-independence government put in place a self-regulatory system that was to formalize the institution in a bid to encourage the involvement of more local investors. When the performance of the public sector became substantially low in the late 1980s as indicated by misuse of funds, market distortions and negative economic development, liberalization and privatization became the main focus (Werah, 2006). In a bid to strengthen the market, a number of institutional and policy reforms were adopted and listing rules were made more rigorous so as to improve the standards of resource management, accounting, and transparency in running the business (Ngugi, 2003).

The Capital Markets Authority was established in 1989 as a regulatory body after the International Finance Corporation (IFC) in conjunction with the Central Bank of Kenya (CBK) carried out a study which suggested structural reforms in the financial markets. The main aim of CMA was set to oversee the creation of an environment favorable for growth and development of the country’s capital markets (CMA, 2010). The Central Depository and Settlement Corporation (CDSC) supports the operations of the NSE by providing clearing, delivery and settlement services for securities bought and sold at the securities market. NSE oversees the conduct of Central Depository Agents comprised of stockbrokers and investments banks which are members of NSE and Custodians (CDSC, 2004). These regulatory frameworks are aimed at efficient allocation of capital, allowing price discovery to take place freely based on the market forces, and thereby sustaining a robust securities market exchange.

NSE currently uses an Automated Trading System (ATS) which is a fully automated screen-based system. The ATS adopts the principles of order-driven market in which the best-buy order is matched with the best-sell order. In July, 2011, the NSE adopted a T+3 settlement system with the expectation that efficiency gains from the shorter settlement cycle will improve liquidity in the market (NSE, 2011). The NSE as at 2013 had 59
companies with equity listings in the Main Investment Market Segment, Alternative Investment Market Segment, Fixed Income Market segment and Growth Enterprise Segment (NSE, 2014). CMA is still streamlining the frameworks for other segments in the Real Estate Investment Trusts and derivatives market.

Olweny et al, (2011) conducted a research on the relationship between the securities market and economic growth in Kenya and the conclusion of their study was a positive relationship between the two variables. This is because a greater NSE 20 share index essentially signals the market’s anticipation of dividends, corporate profits and in turn a higher economic growth. The findings of Aduda et al., (2012) show that individual investors in Kenya depict varying behaviours and financial performance when it comes to making investment decisions, with some investors exhibiting rational behavior.

Despite the fact that NSE offers various investment opportunities that encourage thrift culture, it is necessary to improve on national savings and investment ratios which core when it comes to accelerating the development of the economy. However, savings and investment ratios in Kenya are considerably low, falling at less than fifteen percent of GDP in the past five years (CMA, 2014). It is therefore necessary to understand how the level of awareness and proper understanding of the securities market influences the decision making process of investors because this will provide an insight into what extent these factor affects investment decision making and the reforms that can be effected in order to improve savings and investment ratios (Kimani, 2011).

2.5  Chapter Summary

The literature has reviewed both cognitive errors and emotional biases that potentially influence individual investor decisions. It has discussed biases such as representativeness bias, cognitive dissonance, loss aversion, regret avoidance, overconfidence and mental accounting biases which show that investors are rational when making investment decisions and therefore regret when it is too late and further contradict the basic assumptions of standard finance theories which are concerned with what the market will value at. They do not consider individual behaviour. It is argued that some financial phenomena can be better explained using models where it is recognized that some investors are not fully rational.
Empirical evidence instead, does not extensively support these. There exists contradictory literature which suggests that investors are not immune from the effects of the popular investing culture. There were varied behaviours on financial performance of individual investors with some investors exhibiting rational behaviour in their disregard of fundamental estimations and some irrational to some extent when considered from the rationality of others. Studies have shown that both individuals and institutional investors are affected by emotions and cognitive influences when making investment decisions but not to the extent of showing all the factors and how they affect investment decisions. These were the gaps which this research attempted to fill. The next chapter covers the research methodology used during this study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The general objective of this study was to determine the factors influencing individual investors’ participation at the Nairobi Securities Market, a case of advocates in Nairobi County. This chapter examined the methodology that was used to carry out the study and the choice of the research design that was used throughout the study. It also shows the population of the study and the sampling design, which was the description of the sample size and sampling technique. The chapter then discusses the methods of data collection, data analysis and data presentation methods used.

3.2 Research Design

The research design that was employed in this study was a descriptive research design in form of a survey. According to Cooper and Schindler (2014), research design is the plan and structure used to analyze the subject matter under study and whose purpose is to answer the research questions. The major purpose of descriptive research design is to describe the state of affairs as it is at present. According to Mugenda and Mugenda (1999), a descriptive research is a process of collecting data in order to answer questions concerning the status of the subjects in the study. Survey is concerned with particular characteristics of specific population of subjects either at a fixed point in time or varying time for comparative purposes (Ghauri & Gronhaug, 2005).

Descriptive research design has an advantage over causal research design in that it seeks to answer the ‘what’ question rather than the ‘how, when and why’ (Shields and Rangarajan, 2013). The disadvantage of descriptive research design over causal research design is that the association between cause and effect may not be as clear which could lead to wrong inferences being drawn by the researcher.
3.3 Population and Sampling Design

3.3.1 Population

The population in a study is the collection of people or elements onto which a measure is subjected in order to make inferences (Cooper and Schindler, 2014). The population of the study focused on 4,300 active advocates drawn from the LSK 2014 voter register.

3.3.2 Sampling Design

The sample design is the method by which the selection of primary elements of study and analysis are determined in order to respond to the research questions (Shields and Rangarajan, 2013).

3.3.2.1 Sampling Frame

The sampling frame is the list of elements representing the population from which the sample is drawn (Cooper and Schindler, 2014). Often times, a researcher may not get direct access to the entire population of interest thus they rely on the sampling frame to represent the entire population. All practicing advocates in Kenya must be registered by LSK. The LSK register was the sampling frame used since it contained a list of all the 4,300 practicing advocates in Kenya.

3.3.2.2 Sampling Technique

According to Cramer and Howitt (2004), the sampling technique is the process of selecting the specific methodology to use in deciding the entities in the study. The probability sampling method preferred in this study is the simple random sampling technique. According to Mugenda and Mugenda (1999), the goal of probability sampling is to select a reasonable number of subjects that represent the target population. Simple random sampling is the key to obtaining a representative sample since every sample of a given size in the accessible population has an equal chance of being sampled. The technique allowed the researcher to get a higher response rate as respondents were easily available in various law firms within Nairobi, the Judiciary offices, government ministries, outside the Law courts, legal departments of the various corporate firms, NGO’s and institutions of higher learning.
3.3.2.3 Sample Size

The sample size is the number of elements or people in the sample to be studied and as provided by Mugenda and Mugenda (2003). A sample size of 105 was selected from a total population of 4,300 advocates found within Nairobi County. The advocates in Nairobi were chosen because they had different demographic characters this allowed for variable predictions to be made. (Calder et al., 1981). The following formula has been recommended by Yamane (1973):

\[ n = \frac{N}{1 + Ne^2} \]

Where:

- \( n \) is the sample required
- \( N \) is the total population
- \( e^2 \) is the probability error

This study assumed a confidence interval of 90% which means the allowed error was 10%.

3.4 Data Collection Methods

According to Cooper and Schindler (2014), the major methods for collecting data from the respondents should be clearly described. The information required for the study was collected through interrogation using a structured questionnaire which had the study research questions as the basis on which the questionnaires were formed. Respondents were requested to provide specific information through the questionnaire which had both open ended and close ended questions. The questionnaire also used the five likert scale (from strongly agree to strongly disagree).

There were four parts in the questionnaire: the first part was for the respondents background information, the second part was based on the first research question; individual investment objectives and their risk profiles, the third part was based on the second research question; the factors that influence individual investment decisions and
the fourth part was based on the third research question; the level of awareness of investing in the Nairobi Stock.

The questionnaires had a letter introducing the researcher to the respondents and explaining the purpose of the research. In order to enhance the response rate, respondents were assured of strict confidentiality of the information they shared with the researcher and that the information was used solely for research purposes.

3.5 Research Procedure

The questionnaire was initially pre-tested to ensure the questions were effective when data collection was being carried out. The feedback from the pre-test was used to analyze the quality of the questionnaire, the clarity and relevance of the questions to the respondents, the length of the questionnaire and the time taken to fill in the questionnaire. The questionnaires were distributed through drop and pick where the researcher visited respondents at their places of work, administered the questionnaire and where possible collected them the same day. Where it proved difficult, the questionnaires were collected at a later agreed time.

3.6 Data Analysis Methods

Data analysis is carried out in order to inspect, clean, transform and model data with the aim of identifying and highlighting useful information that can be used to support the decision making process (Adre et al., 2008). Data that was collected was edited to ensure completeness, coded and a code book developed, then entered into Statistical Package for the Social Sciences (SPSS) and Microsoft Excel for analysis. Appropriate descriptive statistics such as mode, frequencies and percentages were used for analysis. The analysis of variance (ANOVA) test was also applied to check for any significant differences between the means of different groups. Figures and tables were used to present the analysed data for ease of understanding.

3.7 Chapter Summary

The chapter described the research methodology that was used in carrying out the study. The research design was descriptive and focused on individual investors, specifically advocates in Nairobi County. The population, sample size, the sampling technique and the questionnaire used as the primary data collection tool have been described. The
chapter has also described the process which was used to analyze the data collected using SPSS and Microsoft Excel and the results were presented in the form of figures, graphs, charts and tables. Chapter four presents the actual findings and results of the study and using the primary data collected from the respondents who participated in the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter comprises the results and major findings of the study based on the data collected from the respondents. The results are presented in narrative, tables and graphs and the chapter begins with an overview of the respondents then presents the results of the responses on the factors that influence individual investors’ participation in the Nairobi Securities Market. The first section of the questionnaire examined the individuals’ investment objectives and their risk profiles; the second section analyzed the factors that influence investment decisions and the third section surveyed the level of awareness of investing in the Nairobi Securities Market.

A total of 105 questionnaires were administered and 103 were filled and returned yielding a 98% response rate. According to Mugenda and Mugenda (2003) a response rate of 70% is excellent, 60% is good and 50% is adequate for analysis. Thus a response rate of 98% was considered reliable and appropriate for the study.

4.2 Demographic information

4.2.1 Gender of the Respondents

The gender ratio of the respondents was fifty two percent (52%) male and fifty percent (50%) female. Both genders were fairly represented in the study as shown in Figure 4.1 below:
4.2.2 Marital Status of the Respondents

While assessing the marital status, most of the respondents (61.8%) were single compared to 36.9% who were married and 0.98% who were divorced as shown in Figure 4.2 below:

![Figure 4.2: Marital Status of the Respondents](image)

4.2.3 Highest Academic / Professional Qualification

From the results of the study, forty seven percent (47.1%) of the respondents had graduate education while fifty three percent (52.9%) held postgraduate diploma qualifications as their highest level of education as shown in Figure 4.3 below:

![Figure 4.3: Highest Academic / Professional Qualification](image)
4.2.4 Age Bracket of the Respondent

Age of the respondents was assessed in three different groups, i.e. below 40 years, 40-50 years and above 50 years. Majority of the respondents, eighty six percent (86.27%) were aged below 40 years; those aged 40 and 50 years were twelve percent (11.76%) while those aged above 50 years were two percent (1.96%) as indicated in Figure 4.4 below:

![Figure 4.4: Age Group](image)

4.2.5 Average Monthly Income of the Respondent

The study also examined average monthly income of the respondents which was categorized into four categories. Twenty five percent (25%) indicated that their average monthly income was below Kshs 50,000; thirty percent (30%) earn between Kshs 51,000-100,000; twenty eight percent (28%) earn between Kshs 101,000-150,000 and fifteen percent (15%) earn above Kshs 151,000. According to these results, it was found out that most of the respondents had an average monthly income of between Ksh 51,000 and Ksh 100,000 as shown in Figure 4.5 below:

![Figure 4.5: Income Level](image)
Figure 4.5: Average Monthly Income

4.3 The Individual Investment Objectives and Risk Profiles

The individual investment objectives and risk profiles was explored with a keen focus on the kind of investment, the portion of net income set aside for investment, preferred investment avenue and reasons for investment.

4.3.1 Kind of Investors

The findings show that thirty eight percent of the respondents (37.9%) were speculative investors / short term; twenty five percent (25.2%) were capital long / long term investors while thirty seven percent (36.9%) were both speculative and capital long investors as shown in Table 4.1 below:

Table 4.1: Kind of Investor

<table>
<thead>
<tr>
<th>Kind of Investor</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speculative (Short-term)</td>
<td>39</td>
<td>37.86%</td>
</tr>
<tr>
<td>Capital (Long-term)</td>
<td>26</td>
<td>25.24%</td>
</tr>
<tr>
<td>Both (Speculative and Capital)</td>
<td>38</td>
<td>36.89%</td>
</tr>
<tr>
<td>Total</td>
<td>105</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

4.3.2 Portion of the Net Income Set Aside For Investment

Amount set aside for investment was examined with a minimum being less than one eight and maximum being more than half of the net income. It was found out that respondents who were willing to set out less than one eighth of their net income were sixteen percent (15.7%); those who set aside a quarter of the net income were fifty four percent (53.9%), those who set aside half of their net income were twenty percent (19.6%) and those willing to set aside more than half of their net income were eleven percent (10.8%) as shown by the Table 4.2 below:
Table 4.2: Portion of the Net Income Set Aside For Investment

<table>
<thead>
<tr>
<th>Proportion Invested</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one eight</td>
<td>16</td>
<td>15.69%</td>
</tr>
<tr>
<td>A quarter</td>
<td>55</td>
<td>53.92%</td>
</tr>
<tr>
<td>Half</td>
<td>20</td>
<td>19.61%</td>
</tr>
<tr>
<td>More than half</td>
<td>11</td>
<td>10.78%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>102</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

4.3.3 Preferred Investment Avenue

The three investment avenues considered in this study were investment in shares, fixed income securities, and real estate and other ventures. Results of the study indicate that twenty two percent (22.45%) prefer investing in shares; eighteen percent (18.37%) prefer securities and fifty nine percent (59%) would rather invest in real estate and other ventures as represented in Table 4.3 below:

Table 4.3: Preferred Investment Avenue

<table>
<thead>
<tr>
<th>Investment avenue</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>22</td>
<td>22.45%</td>
</tr>
<tr>
<td>Securities</td>
<td>18</td>
<td>18.37%</td>
</tr>
<tr>
<td>Real estate</td>
<td>58</td>
<td>59.18%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

4.3.4 Reasons for Investing

The six reasons for investing considered in this study were; to increase savings, for capital growth and preservation, to increase income, to finance expenses, for sustainable long-term growth and a combination of income and capital growth. Results of the study indicate that seventeen percent (16.5%) invest to increase savings; twenty five percent (25.24%) invest for capital growth and preservation; seventeen percent (17.47%) invest to increase income; seven percent (6.78%) invest to finance expenses; twenty seven percent
Twenty seven percent (27.18%) invest for sustainable long-term growth and twenty seven percent (27.18%) invest for a combination of income and capital growth as represented in Table 4.4 below:

**Table 4.4: Reasons for Investing**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase savings</td>
<td>17</td>
<td>16.50%</td>
</tr>
<tr>
<td>Capital growth and preservation</td>
<td>26</td>
<td>25.24%</td>
</tr>
<tr>
<td>Increase income</td>
<td>18</td>
<td>17.47%</td>
</tr>
<tr>
<td>Finance expenses</td>
<td>7</td>
<td>6.78%</td>
</tr>
<tr>
<td>Sustainable long-term growth</td>
<td>28</td>
<td>27.18%</td>
</tr>
<tr>
<td>Combination of income and capital growth</td>
<td>28</td>
<td>27.18%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>124</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

**4.3.5 Investment Decisions**

The study examined whether respondents assess and mitigate financial risk before investing. Twenty two percent (22.5%) highly disagreed; four percent (4%) somehow disagreed; thirty three percent agreed (32.65%), fourteen percent (14.29) somehow agreed; twenty six percent (26.53%) highly agreed as shown in the Table 4.10 below:

Twelve percent (11.7%) of the respondents highly disagreed that they are averse to uncertainties; twenty percent (20.2%) somehow disagreed; thirty four percent (34%) agreed; nineteen percent (19%) somehow agreed and fifteen percent (14.9%) highly agreed.

Twenty six percent (25.8%) of the respondents highly disagreed that they prefer lower chances of losses; five percent (5.4%) somehow disagreed; twenty seven percent (26.9%) agreed; thirteen percent (12.9%) somehow agreed; and twenty nine percent (29%) of the respondents highly agreed.

Fifteen percent (15.2%) of the respondents highly disagreed that they choose not to operate in unfamiliar situations; twenty one percent (20.7%) somehow disagreed, twenty one percent (20.7%) agreed; twenty one percent (20.7%) somehow agreed; and twenty three percent (22.8%) of the respondents highly agreed.
Twenty three percent (23.47%) of the respondents highly disagreed that usually require more information about an investment before considering investing; two percent (2%) somehow disagreed; twenty nine percent (28.6%) agreed; eight percent (8.2%) somehow agreed and thirty eight percent (37.8%) highly agreed as shown in the Table 4.5 below:

**Table 4.5: Investment Decisions**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Highly Disagreed</th>
<th>Somehow Disagreed</th>
<th>Agreed</th>
<th>Somehow Agreed</th>
<th>Highly Agreed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment and Mitigation of Financial Risk before Investing</td>
<td>22.45%</td>
<td>4.08%</td>
<td>32.65%</td>
<td>14.29%</td>
<td>26.53%</td>
</tr>
<tr>
<td>Risk averseness</td>
<td>11.70%</td>
<td>20.21%</td>
<td>34.04%</td>
<td>19.15%</td>
<td>14.89%</td>
</tr>
<tr>
<td>Preference of Lower Chances Of Losses</td>
<td>25.81%</td>
<td>5.38%</td>
<td>26.88%</td>
<td>12.90%</td>
<td>29.03%</td>
</tr>
<tr>
<td>Operation in Unfamiliar Situations</td>
<td>15.22%</td>
<td>20.65%</td>
<td>20.65%</td>
<td>20.65%</td>
<td>22.83%</td>
</tr>
<tr>
<td>Requiring more information about investment before investing</td>
<td>23.47%</td>
<td>2.04%</td>
<td>28.57%</td>
<td>8.16%</td>
<td>37.76%</td>
</tr>
</tbody>
</table>

### 4.4 Factors Influencing Individual Investment Decisions

Factors that the study considered as influencing individual decision to invest were explored in seven different forms. They include; skills and knowledge of securities market are sufficient, family and religion influence financial decisions, relying on professional advisors when making decision, popular opinion influence investment decisions, one focuses on trends in returns, financial information influence the decisions and opinion of friends influence the decisions. All of these forms of evaluation are rated through the likert scale (highly disagreed, somehow disagreed, agreed, somehow agreed and highly agreed respectively).

Fourteen percent (13.75%) of the respondents highly disagreed that their skills and knowledge of the securities market are sufficient to make sound investment decisions; Thirty four percent (34.3%) somehow disagreed; twenty eight percent (28.4%) agreed; sixteen percent (15.7%) somehow agreed and eight percent (7.8%) highly agreed.

Forty two percent (41.7%) somehow disagreed that their family and religious background influence the financial decisions they make; sixteen percent (16.5%) somehow disagreed; twenty two percent (22.3%) agreed; fifteen percent (14.5%) somehow agreed and five percent (5%) highly agreed.
Seven percent (6.9%) highly disagreed that they rely on professional and investment advisors when making investment decisions, twenty percent (19.6%); somehow disagreed; thirty two percent (32.3%) agreed; nineteen percent (18.6%) somehow agreed and twenty three percent (22.6%) highly agreed.

Sixteen percent (15.8%) of the respondents highly disagreed that their investment decisions are influenced by popular opinion about the market; twenty four percent (23.8%) somehow disagreed; twenty six percent (25.7%) agreed; twenty eight percent (27.7%) somehow agreed and seven percent (6.9%) highly agreed.

Four percent (3.92%) of the respondents highly disagreed that they focus on recent trends in returns and profitability; eleven percent (10.8%) somehow disagreed; thirty eight percent (38.2%) agreed twenty eight percent (28.4%) somehow agreed and nineteen percent (18.6%) highly agreed.

One percent (1%) of the respondents highly disagreed that their investment decisions depend on financial information available in the market; ten percent (10.1%) somehow disagreed; fifty one percent (50.5%) agreed; twenty percent (20.2%) somehow agreed and eighteen percent (18.1%) highly agreed.

Thirty one percent (31.1%) of the respondents highly disagreed that their investment decisions are based on opinions of friends and colleagues; twenty eight percent (28.2%) somehow disagreed; fourteen percent (13.6%) agreed; twenty percent (20.4%) somehow disagreed and seven percent (6.8%) highly agreed as shown in Table 4.6 below:

**Table 4.6: Factors Influencing Individual Investment Decisions**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Highly disagreed</th>
<th>Somehow disagreed</th>
<th>Agreed</th>
<th>Somehow agreed</th>
<th>Highly agreed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sufficient skills and knowledge</td>
<td>13.73%</td>
<td>34.31%</td>
<td>28.43%</td>
<td>15.69%</td>
<td>7.84%</td>
</tr>
<tr>
<td>Family and Religious Background Influences</td>
<td>41.75%</td>
<td>16.50%</td>
<td>22.33%</td>
<td>14.56%</td>
<td>4.85%</td>
</tr>
<tr>
<td>Reliance on Professional and Investment Advisors</td>
<td>6.86%</td>
<td>19.61%</td>
<td>32.35%</td>
<td>18.63%</td>
<td>22.55%</td>
</tr>
<tr>
<td>Popular Opinion Influences</td>
<td>15.84%</td>
<td>23.76%</td>
<td>25.74%</td>
<td>27.72%</td>
<td>6.93%</td>
</tr>
<tr>
<td>Focus on Recent Trends in Returns / Profitability</td>
<td>3.92%</td>
<td>10.78%</td>
<td>38.24%</td>
<td>28.43%</td>
<td>18.63%</td>
</tr>
<tr>
<td>Financial Information Available</td>
<td>1.01%</td>
<td>10.10%</td>
<td>50.51%</td>
<td>20.20%</td>
<td>18.18%</td>
</tr>
<tr>
<td>Opinion of Friends and Colleagues</td>
<td>31.07%</td>
<td>28.16%</td>
<td>13.59%</td>
<td>20.39%</td>
<td>6.80%</td>
</tr>
</tbody>
</table>
4.5. Level of Awareness of Investing at NSE

4.5.1 Status of Investing in the NSE

On participation as discussed earlier, only 44.6% of the respondent participates at the NSE. It is shown that those who have do not intend to participate at the NSE were found to be only 21.8% as they don’t have information on securities market while those who intend to participate form 33.7%. The findings are shown in the Figure 4.6 below:

![Figure 4.6: Status of Investing in the NSE](image)

4.5.2 Frequency of Buying and Selling Shares

The study revealed that those who only three percent (2.9%) of the respondents have a high frequency of trading in shares. Sixteen percent (15.7%) traded moderately, forty three percent (43.1%) traded at a low frequency while thirty eight percent (38.2%) never traded. The findings indicate that generally there is a very low frequency of trading in shares among investors as shown in Figure 4.7 below:
4.5.3: Rating of Equity Securities / Shares

Concerning rating of equity shares, approximately forty five percent (45%) of the respondents rated equity securities/shares as an investment just like real estate and other ventures while fifty five percent (55%) do not as represented in the Figure 4.8 below:

Figure 4.8: Rating of Equity Securities / Shares

4.5.4: Personal Assessment of Financial Literacy

Similarly, financial literacy was rated as high, medium and low with 15.7%, 72.5% and 11.8% respectively based on personal rating of the knowledge the respondent has on financial and investment terms as shown in the Figure 4.9 below:
4.5.5: Sources of Information on the Securities Market

The findings revealed that out of the total respondents, Twenty three percent (23.3%) depended on information from family/acquaintances/friends; thirteen percent (12.6%) got information from professional financial advisors; fifty six percent (56.3%) depended on newspapers and financial magazines; thirteen percent (12.6%) got information from guides and books while twenty three percent (23.3%) relied on the internet for information. The most popular source of information therefore was newspapers and financial magazines as shown in Table 4.7 below:

Table 4.7: Sources of Information on the Securities Market

<table>
<thead>
<tr>
<th>Source</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family, friends and acquaintances</td>
<td>24</td>
<td>23.3%</td>
</tr>
<tr>
<td>Professional financial advice</td>
<td>13</td>
<td>12.6%</td>
</tr>
<tr>
<td>Newspapers and financial magazines</td>
<td>58</td>
<td>56.3%</td>
</tr>
<tr>
<td>Guides and books</td>
<td>13</td>
<td>12.6%</td>
</tr>
<tr>
<td>Internet</td>
<td>24</td>
<td>23.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>132</strong></td>
<td></td>
</tr>
</tbody>
</table>
4.5.6: Challenges Faced While Making Decisions Regarding Investments in the NSE

The biggest challenge in making investment decision in the NSE on how to allocate resources was shown to be contributed lack of proper understanding of the securities market as identified by forty two percent of the respondents (41.9%). Another major challenge was lack of sufficient information as stated by thirty nine percent of the respondents (38.7%); eighteen percent (18.2%) cited fear of the past while only one percent stated other reasons majorly lack of sufficient funds as shown in Table 4.8 below:

Table 4.8: Challenges Faced While Making Investments Decisions in the NSE

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Freq.</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of sufficient information</td>
<td>36</td>
<td>38.71%</td>
</tr>
<tr>
<td>Fear of the past</td>
<td>17</td>
<td>18.28%</td>
</tr>
<tr>
<td>Lack of proper understanding of securities market</td>
<td>39</td>
<td>41.94%</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1.08%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>93</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.5.7: Assessment of Respondent’s Basic Knowledge on the NSE

Finally, understanding of the stock exchange was evaluated in five common areas based on whether the statements were true or false. Seventy five percent (75%) reported that stocks are normally riskier than bonds, which is true, while twenty five percent (25%) thought otherwise. Twenty one percent (21.2%) of respondents reported that when an investor spreads his/her money among different assets, he/she increases the risk of losing money, which is false while majority of them at seventy nine percent (78.8%) responded that this statement was false, which is the correct response. Further, forty five percent (44.7%) of the respondents reported that buying a company stock usually provides a safer return than a stock mutual fund which is not correct but the majority being fifty five percent (55.3%) gave the correct response. Fifty eight percent (57.5%) of the respondents recorded, which is correct while forty three percent (42.6%) thought otherwise. Finally, twenty three percent (22.7%) of the respondents reported that one does not require to open a CDS account in order to participate in the securities market which is incorrect, but the majority know that you have to open a CDS account as stated by seventy seven percent (77.3%) of the respondents. The findings are represented in the Table 4.9 below:
Table 4.9: Assessment of Respondent’s Basic Knowledge on the NSE

<table>
<thead>
<tr>
<th>Statement</th>
<th>True</th>
<th>False</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks are normally riskier than bonds</td>
<td>74.7%</td>
<td>25.3%</td>
</tr>
<tr>
<td>When an investor spreads his money among different assets, he/she increases the risk of losing money</td>
<td>21.2%</td>
<td>78.8%</td>
</tr>
<tr>
<td>Buying a company stock usually provides a safer return than a stock mutual fund.</td>
<td>44.7%</td>
<td>55.3%</td>
</tr>
<tr>
<td>A bond can be sold before maturity</td>
<td>57.5%</td>
<td>42.6%</td>
</tr>
<tr>
<td>You do NOT have to open a CDS account in order to participate in the Securities market</td>
<td>22.7%</td>
<td>77.3%</td>
</tr>
</tbody>
</table>
4.6 ANOVA Test

4.6.1: Level of Investment vs Age

Table 4.10: ANOVA Results

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>6.791</td>
<td>2</td>
<td>3.395</td>
<td>5.802</td>
<td>.004</td>
</tr>
<tr>
<td>Within Groups</td>
<td>57.348</td>
<td>98</td>
<td>.585</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>64.139</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ANOVA test result shows that there existed differences in the level of investment for different categories of age brackets. The ANOVA test results shows a F(2,98)=5.802, p=0.004. The value of p is less than 0.05. (p<0.05). This shows that the results are consistent and not due to chance. Thus there exist significant differences in investment levels of the age brackets.

Table 4.11: Post Hoc Tests

<table>
<thead>
<tr>
<th>(I) Age</th>
<th>(J) Age</th>
<th>Mean Difference (I-J)</th>
<th>Std. Error</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Lower Bound Upper Bound</td>
</tr>
<tr>
<td>below 40 years</td>
<td>40-50 years</td>
<td>-.32471</td>
<td>.23557</td>
<td>.356</td>
<td>-.8853 -.2359</td>
</tr>
<tr>
<td>above 50 years</td>
<td></td>
<td>-1.74138</td>
<td>.54710</td>
<td>.006</td>
<td>-3.0434 -.4394</td>
</tr>
<tr>
<td>40-50 years</td>
<td>below 40 years</td>
<td>.32471</td>
<td>.23557</td>
<td>.356</td>
<td>-.2359 .8853</td>
</tr>
<tr>
<td>above 50 years</td>
<td></td>
<td>-1.41667</td>
<td>.58426</td>
<td>.045</td>
<td>-2.8071 -.0262</td>
</tr>
<tr>
<td>above 50 years</td>
<td>below 40 years</td>
<td>1.74138</td>
<td>.54710</td>
<td>.006</td>
<td>.4394 3.0434</td>
</tr>
<tr>
<td></td>
<td>40-50 years</td>
<td>1.41667</td>
<td>.58426</td>
<td>.045</td>
<td>.0262 2.8071</td>
</tr>
</tbody>
</table>

* The mean difference is significant at the 0.05 level.
The post hoc analysis shows that there was no differences in levels of investment between people aged below 40 years and those between 40-50 years (p=0.356). However, there was significant differences in the level of investment between those aged below 40 years and those aged more than 50 years (p=0.006). Also there exist significant differences in investment levels between people aged 40-50 years and those aged more than 50 years (p=0.045). This is shown by Table of means as indicated in Table 4.12 below:

Table 4.12: Mean Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>STD. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 50 years</td>
<td>2</td>
<td>4.500</td>
<td>.70711</td>
</tr>
<tr>
<td>40-50 years</td>
<td>12</td>
<td>3.083</td>
<td>.90034</td>
</tr>
<tr>
<td>below 40 years</td>
<td>87</td>
<td>2.758</td>
<td>.74655</td>
</tr>
<tr>
<td>Total</td>
<td>101</td>
<td>2.831</td>
<td>.80087</td>
</tr>
</tbody>
</table>

Table 4.12 shows that the frequency of investment was very high among the respondents who were aged more than 50 years (M=4.50), followed by those who were aged 40-50 years (M=3.080 and lastly those who were below 40 years (M=2.76)

4.6.2 Frequency of Investment and Income Level

Table 4.13: ANOVA Results

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>9.558</td>
<td>3</td>
<td>3.186</td>
<td>5.662</td>
<td>.001</td>
</tr>
<tr>
<td>Within Groups</td>
<td>54.580</td>
<td>97</td>
<td>.563</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>64.139</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ANOVA test shows a value of F(3,97)=5.662, p=0.001. This shows that there exists significant differences in the frequency with which respondents earning different levels of income invest. A post hoc analysis shows where the differences exist among the categories of income earners.
Table 4.14: Post Hoc Results

<table>
<thead>
<tr>
<th>(I) income</th>
<th>(J) income</th>
<th>Mean Difference (I-J)</th>
<th>Std. Error</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>below kshs 50,000</td>
<td>50,001 and 100,000</td>
<td>-.31886</td>
<td>.19948</td>
<td>.384</td>
</tr>
<tr>
<td>100,001-150,000</td>
<td>.61141*</td>
<td>.20259</td>
<td>.017</td>
<td></td>
</tr>
<tr>
<td>above 150,000</td>
<td>-.91026*</td>
<td>.24322</td>
<td>.002</td>
<td></td>
</tr>
<tr>
<td>50,001 and 100,000</td>
<td>below kshs 50,000</td>
<td>.31886</td>
<td>.19948</td>
<td>.384</td>
</tr>
<tr>
<td>100,001-150,000</td>
<td>-.29255</td>
<td>.19379</td>
<td>.436</td>
<td></td>
</tr>
<tr>
<td>above 150,000</td>
<td>.59140</td>
<td>.23593</td>
<td>.065</td>
<td></td>
</tr>
<tr>
<td>100,001-150,000</td>
<td>below kshs 50,000</td>
<td>.61141*</td>
<td>.20259</td>
<td>.017</td>
</tr>
<tr>
<td>50,001 and 100,000</td>
<td>.29255</td>
<td>.19379</td>
<td>.436</td>
<td></td>
</tr>
<tr>
<td>above 150,000</td>
<td>-.29885</td>
<td>.23857</td>
<td>.595</td>
<td></td>
</tr>
<tr>
<td>Above 150,000</td>
<td>below kshs 50,000</td>
<td>.91026*</td>
<td>.24322</td>
<td>.002</td>
</tr>
<tr>
<td>50,001 and 100,000</td>
<td>.59140</td>
<td>.23593</td>
<td>.065</td>
<td></td>
</tr>
<tr>
<td>100,001-150,000</td>
<td>.29885</td>
<td>.23857</td>
<td>.595</td>
<td></td>
</tr>
</tbody>
</table>

A post hoc analysis shows that there exists differences in investment levels between those earning less than 50,000 and those earning more than 100,000. However, the test shows that income classes near each other have no differences in their investment.

Table 4.15: Mean Statistics

<table>
<thead>
<tr>
<th>Income Level</th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 150,000</td>
<td>15</td>
<td>3.3333</td>
<td>.72375</td>
</tr>
<tr>
<td>100,001-150,000</td>
<td>29</td>
<td>3.0345</td>
<td>.77840</td>
</tr>
<tr>
<td>50,001 and 100,000</td>
<td>31</td>
<td>2.7419</td>
<td>.81518</td>
</tr>
<tr>
<td>Below kshs 50,000</td>
<td>26</td>
<td>2.4231</td>
<td>.64331</td>
</tr>
<tr>
<td>Total</td>
<td>101</td>
<td>2.8317</td>
<td>.80087</td>
</tr>
</tbody>
</table>

The mean statistics shows that the highest level of investment is from those who earn highly (more than 150,000). The level of investment declines with decrease in income level; thus the rate of investment increases with increase in income level. This may be because the high income earners have surplus to invest while the low income
earners have income which is just enough for their upkeep and thus they rarely invest in stock markets.

4.7 Chapter Summary

This chapter provides the results and findings of the study with respect to the data collected from the respondents. The findings based on the background of the respondents are given in the first section followed by the findings on individual Investment objectives and risk profiles. The third section presents the results on the factors that influence individual investment decisions and the final section provides the findings on the level of awareness of investing in the NSE. The next chapter will focus on the discussion of the findings, conclusion and recommendation of the study.
CHAPTER FIVE

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter comprises the summary, discussion, conclusion and recommendations of the study. The first section contains the summary which includes the study objectives, methodology and findings. The second section presents the discussion on the major findings and the third section covers conclusions based on the research questions as per the results obtained in chapter four. The fourth section offers recommendations for improvement based on the research questions as well as recommendations for further studies.

5.2 Summary

Studies have shown in finance literature that majority of investors decide to imitate the observed decisions of others in the market rather than follow their own beliefs and information. This has contributed to a large extent the observed fluctuations in the securities market. This instability at one point or the other leads to investors being averse towards participating in the securities market according to the report of capital markets authority (CMA, 2012). It is in this light that this study considered timely to examine various factors that influence individual participation in the securities market in Kenya, a case of advocates in Nairobi County. The survey involved a sample of 105 advocates in the licensed and operates/ stationed within Nairobi County. The study is specifically meant to determine the individual investment objectives and their risk profiles, some of the major factors that influence individual investment decisions, and establish the level of awareness of investing in the Nairobi Securities Market.

To achieve the above purpose, descriptive research design was used since the data used in the study was generally readily available. The study used simple random sampling technique to select the sample size of 105 advocates from the approximately 4,300 advocates located within Nairobi.

The information required for the study was collected using a structured questionnaire which was pilot tested to ensure the questions were adequate when data collection was
carried out. The questionnaires were then assessed to ensure completeness then coded and entered into Statistical Package for the Social Sciences (SPSS) and Microsoft Excel for analysis using median and mode as measures of central tendency, frequencies and percentages.

The study revealed that most investors are fundamentally risk averse which means that if they have to choose between two assets with equal rates of returns they are more likely to choose the asset with the lower level of risk. The study revealed that majority of the investors preferred to invest in real estate in comparison to the stocks market because only a small section of the respondents, totaling to twenty two per cent, opted for the securities market as an investment avenue. The least preference was for fixed income and securities. The study shows that savings and investment ratios in Kenya are still low with majority of the people setting aside only a quarter of their net income for investment.

Several reasons for investing were considered in the study and it was found out that most people invest for capital growth and preservation, for sustainable long-term growth and a combination of income and capital growth. Furthermore, the study indicates that very few people invest to finance expenses implying that most investors invest for the long-term.

This study also confirmed that indeed most people lack knowledge and skills that can enable them to make sound investment decisions on the securities market thus the investors usually rely on professional and investment advisors expertise when making decisions.

The findings of the study also indicate that investment decisions are influenced by popular opinion in the market, recent trends in returns and profitability and by the opinions of friends and colleagues.

The study showed that majority of the investors have already invested or are intending to invest in the securities market. However, the frequency of trading in those shares was generally low. The most popular source of information regarding the securities market was found to be newspapers and magazines. Family, friends and internet were also a common source of information. Very few people look for information regarding the securities market from guides and books. The study cited insufficient information and lack of proper understanding of the securities market as the major challenges that investors face while making decisions on how to allocate their resources in the NSE. A
general assessment on the investors’ understanding of basic operational guidelines in the NSE revealed that most people have a fairly good understanding, given their high levels of education.

5.3 Discussion

5.3.1 Individual Investment Objectives and Risk Profiles

The study revealed that most people invest both in the short-term and long-term basis. Traditional economic theory presumes that investors are rational and they therefore make decisions specifically to benefit from the opportunities available to them. Investors think of themselves as rational and logical. This means that they are mainly interested in exploiting investment opportunities in order to maximize their wealth. Consistency with axioms of rationality was also revealed by the study when most of the respondents indicated that they were risk averse with low level of tolerance to unfamiliar situations.

The study shows that savings and investment ratios in Kenya are still low with majority of the people setting aside only a quarter of their net income for investment. Only a small percentage of ten stated they set aside more than half of their net income for investment. Poorer countries save less than rich ones (just like households) because a greater share of their income goes to meeting basic needs such as shelter, clothing, and food. Richer countries also have an increasingly large group of retirees who tend to stash money aside. However, some poor countries have broken out of the cycle of low savings and high consumption, especially so in East Asia. There, high savings and investment have fueled the economic boom. China is an extreme case: more than half of what is produced is saved and then invested. But even a relatively poor country like Vietnam can boast having a savings rate of 33 percent. Some economists, including Nobel-prize winner Joseph Stiglitz, argue that, besides cultural factors, it is high growth that explains high savings in East Asia. Clearly there is a virtuous cycle between economic growth and saving (Sultan and Pardhasaradhi, 2012).

In most of Africa, savings rates are relatively low, around 17 percent of gross domestic product. Kenya is no exception and in fact it saves less than many of its peers (around 13-14 percent of GDP over the last five years). This is half of the average for all low-income countries (26 percent of GDP). By contrast, neighboring Uganda and Tanzania have
already crossed the 20 percent mark even though their per capita income is significantly lower.

Most investors according to Samal (1995) have eight common needs from their investments: security of original capital, wealth accumulation, comfort factor, tax efficiency, life cover, income, simplicity, ease of withdrawal and communication. The study revealed that most people invest for capital growth and preservation, for sustainable long-term growth and a combination of income and capital growth. The less popular reasons were to increase income and to finance expenses; the basic assumption of the modern portfolio theory is that investors are willing to maximize their return on investment for a given level of risk. As shown by the results of the study, however, investors are fundamentally risk averse which means that if they have to choose between two assets with equal rates of returns they are more likely to choose the asset with the lower level of risk. The study noted that majority of the investors preferred to invest in real estate as opposed to investment stocks in which only small proportion of twenty two per cent of the respondents invested. The least preference was for fixed income and securities since they exhibit low risk and consequently lower returns.

Waweru et al. (2008), conclude that market information has very high impact on making decision of investors and this is why the investors, in some way, tend to focus on popular investment ventures such as real estate. This is confirmed by the results of the study since majority of investors in the Kenyan market are keen on real estate as a preferred choice of investment.

5.3.2 Factors Influencing Individual Investment Decisions

Successful investing is more than choosing a particular stock; it is also how you go about doing it. This is achieved through staying rational, choosing a few stocks that are likely to outperform the market, being firm to hold on them during short-term market volatility, keeping track of them and controlling excess optimism and pessimism. However, this has not always been observed in practice. The field of behavioral finance has developed in response to the increasing number of stock market anomalies (undervaluation or overvaluation) that could not be explained by financial models. However, there is lack of unanimous agreement in that behavioral finance as a concept is still open for discussion. While research has been conducted in the secondary markets, there is little evidence of
studies on individual investor behavior with reference to the NSE. This led to the question; which particular behavioral biases influence individual investor decisions? The study established that investors usually accept recommendations made by family and friends. They also rely on financial information available in the market but most of the investor’s decision is based upon their own will and are not influenced by any one. The study also shows that people are not often influenced by their family and religious backgrounds. However, people who fall under different age groups, income levels, financial knowledge, gender, marital status and occupation are bound to make varying investment decisions (Jain and Mandot, 2012).

This study confirmed that indeed most people lack knowledge and skills that can enable them to make sound investment decisions on the securities market. This is based on a study that revealed that individual investors lack skills due to which the decision making of investors suffers (Usmani, 2009). It is for the same reason that this study also revealed that investors usually rely on professional and investment advisors expertise when making decisions. Investors try to make rational decisions in their dealings with the stock market, but due to their limited cognitive capacity they fail to analyze data optimally. Typical investor’s decision about how much to invest in stocks tends not to be based on careful conclusion. They neither assemble forecasts for returns, nor weigh these against measured risks. Most investors neither understand nor pay attention to the complex models used in forecasting. Amidst these, they have to decide. Their decisions are initially intended to be founded on axioms of rationality but individuals often act in a less than rational manner. In the absence of assembled forecasts and known models to assemble forecasts, investors use rules of the thumb called heuristics to arrive at decisions.

The findings of the study indicate that investment decisions are influenced by popular opinion in the market, focuses on recent trends in returns and profitability and are usually based on the opinions of friends and colleagues. Aduda et al., (2012) while conducting their study on “the behaviour and financial performance of individual investors in the trading shares of companies listed at the Nairobi Stock Exchange, Kenya, with the first objective of their study being, to find out how individual investors make their investment decisions”, found out that, influence from friends; where most investors relied on advice from friends and colleagues before deciding to go for stocks and; popular opinion about
the market, and from recent trend in share price movements, were clear indication of
herding behaviour existing in NSE. There were varied behaviours and financial
performance of individual investors in Kenya with some investors exhibiting rational
behaviour while making investment decisions.

5.3.3 The level of Awareness of Investing in the NSE

The study noted that majority of the investors have already invested or are intending to
invest in the securities market even though they had not started. However even for those
who were already investing in the securities market, their frequency of trading in those
shares was low to never with a small percentage of three stating that their frequency of
trading was high. Moreover, most investors do not even rate securities as an investment
just like real estate and other ventures.

The most popular source of information regarding the securities market was found to be
newspapers and magazines. Family, friends and internet were also a common source of
information. Very few people look for information from guides and books. Waweru and
Uliana (2008), concluded that financial information available in the market has a huge
influence on the decision making process of investors and this is the reason why investors
tend to be attracted by popular stocks and major occurrences in the market environment.
Barber and Odean (2008) argue that attention greatly influences individual investor
purchase decisions. Investors face a huge search problem when choosing stocks to buy.
Rather than searching systematically, many investors may consider only stocks that first
catch their attention (for example, stocks that are in the news or stocks with large price
moves). This will lead individual investors to buy attention-grabbing stocks heavily.
Since most individual investors own only a small number of stocks and only sell
stocks that they own, selling poses less of a search problem and is less sensitive
to attention effects. Moreover, Barber and Odean (2000), emphasize that investors are
influenced by events in the securities market which grab their attention, even when they
do not know if these events could result in good future investment performance.

The study cited insufficient information and lack of proper understanding of the securities
market as the major challenges that investors face while making decisions on how to
allocate their resources in the NSE. Other studies have confirmed the positive association
between financial knowledge and household financial decision making. Hilgerth, Hogarth
and Beverly (2003) document a positive link between financial knowledge and financial
behaviour. From their study, Szafranska and Matysik (2012) indicate that those who are unable to correctly compute interest rates out of a stream of payments eventually borrow more amounting to lesser amounts of wealth. Lusardi and Mitchell (2008) also found out that individuals with sufficient financial knowledge are most likely to participate in the securities market. Singh (2010) shows that financial mistakes are more predominant among the young and elderly, who also happen to display the lowest amount of financial knowledge and cognitive ability.

A general assessment on the investors’ understanding of basic operational guidelines in the NSE revealed that most people have a fairly good understanding, given their high levels of education. They are aware that one must open a CDS account in order to participate in the securities market, that stocks are normally riskier than bonds and that a bond can be sold before maturity. They also know that working with a diversified portfolio reduces the risks of investing and that investing in a stock mutual fund is safer than buying a company stock.

5.4 Conclusions

5.4.1 Individual Investment Objectives and Risk Profiles

Investors are risk averse and prefer lower chances of losses. They prefer not to operate in unfamiliar situations and assess and mitigate financial risk before investing. This explains why most of them shy away from shares and fixed income securities since they consider them as risky or unfamiliar. The low demand for shares also reflects the low level of confidence that investors have in the securities market in the first place.

Real estate is the preferred choice of investment by the majority since it fulfills their major investment objectives of capital growth and preservation and for sustainable long-term growth. The study further demonstrated that because investors are risk averse they need to combine assets into efficiently diversified portfolios.

5.4.2 Factors Influencing Individual Investment Decisions

The study concluded that several factors come into play when investors are making their decisions. Out of the various factors identified, skills and knowledge of the securities market, availability of financial information and focus on recent trends in the return/profitability came out as the major factors. Even though the herd mentality was also
found to play a significant role as explained by investment decisions based on shares in high demand and friends and co-workers recommendation, reliance on professional and investment advisors expertise when making such decisions came out clearly as a significant factor.

5.4.3 The level of Awareness of Investing in the NSE

The study concluded that a significant number of investors are already investing in the securities market. However, their level of active trading was found to be very low because most of them are one–off speculative buyers who acquire shares and even forget that they have them in their portfolio, resulting in such shares not being traded in the market. They should not only acquire but also trade in the securities acquired. The other is the slow growth of pension and unit trust funds through which savers can invest in markets for the future.

At the investor level it is argued that most of them are naive and cannot correctly interpret the information they receive. They also rely majorly on newspapers and financial magazines for information about the stocks. This becomes a limiting factor as it only provides information on the current trading prices and volumes and not a holistic view on the securities being traded. A deeper understanding of the securities exchange operations is required for one to trade efficiently yet majority of investors do not refer to professional financial advisors, books and guides that could help them achieve this.

Most of the investors are also said to take the view that the securities market is inefficient and therefore an unreliable since they do not rate it like real estate and other ventures, given the risks involved.

5.5 Recommendations

The following are the recommendations for improvement and further studies; the recommendations are drawn from the study findings.

5.5.1 Recommendations for Improvement

5.5.1.1 Individual Investment Objectives and Risk Profiles

The government should encourage more saving and investment among individuals. There are several ways the government can act to increase savings and thereby generate more
investment. First, it can take measures to improve the business environment and address infrastructure bottlenecks (especially energy and transport), so that business will have an incentive to save more and invest in new projects. Second, it can continue the shift in public expenditures and spend more on infrastructure than on wages, goods and services.

5.5.1.2 Factors Influencing Individual Investment Decisions

The researcher recommends that the investors need to analyze the investment factors carefully using the reasonable business knowledge before making an investment decision. The investors should also be able to interpret the market and economic indicators since they influence the performance of the share on the market. They should evaluate all the variables in the environment instead of considering only one variable. Investors do also need to diversify their investment in different companies by developing a portfolio of investments to minimize risks and maximize returns.

Educating investors is important in order to overcome uncomfortable investment outcomes caused by behavioral biases. In order to manage and balance the effect of behavioral influences with respect to investors decision making, training programs that create investor awareness through firms’ websites in terms of the capacity to point out and protect against cognitive errors and emotional biases that lead to bad investment choices should be offered to prospective individual investors at the same level in that information should not be hidden, misleading or given at different times for investors. This should be done by all firms going public together with stockbrokers and investment banks who should also direct on Annual General Meetings in a way that they are participate and suggest ideas that will help investors grow and minimize losses as a result of behavioral influences.

The government should also work closely with the other governments within the region towards merging the national securities markets into regional exchanges as a solution to small market sizes and low trading volumes. A regional exchange should mean more liquidity — the lifeblood of exchanges — by making stocks available to a wider range of investors. In order to achieve this, African countries would need to harmonize their trading laws and accounting standards, set up convertible currencies and establish free trade among member.
5.5.1.3 The level of Awareness of Investing in the NSE

According to the findings of the study, it is recommended that the government should take positive steps towards disseminating information on knowledge and skills necessary to make investment decisions. This could be done by incorporating stock investments as part of the curriculum from an early age so as to nurture students to become active participants.

The various government bodies like CMA should take initiative in creating public awareness regarding the various investment options available in the securities market and where to find the right information regarding market. This will encourage more people to view the securities as a viable investment option. Awareness should also be created at the county government level and this can be achieved by the county government creating departments under the ministry of finance to handle outreach programs educating and encouraging locals to seek investment opportunities in the securities market.

The financial markets in developing countries are to be found in urban centres which are well served by modern communication facilities. This implies that the demand for securities in developing countries tends to be centred on elite institutions and investors only commonly found in urban centres. This in effect means that the small savers in the rural areas tend not to have access or not to understand the importance of investment in securities. Therefore, there is also need for the current financial experts dealing with stocks to become more proactive in reaching out to more potential clientele and to make their services more known and available especially in the rural areas. More emphasis should be put in encouraging demand for securities among the small savers in rural areas and this may itself require not only education based policies but also a concerted effort to show such potential investors that financial assets are as valuable as tangible assets such as land and buildings.

5.5.2 Recommendations for Further Research

This study focused mainly on determinants of individual investor participation at the NSE using a case study design. In this regard, the study was conducted among advocates only as a representation of the population. However, further research needs to be done focusing on other professionals like doctors and engineers, as well as those in the informal sector.
The study having been conducted within an urban setup, further studies should be done focusing on the rural set-up for us to get a more representative analysis of the market situation. A future study could also account for more variables that potentially influence individual investor decisions other than the ones already discussed in this study. Further researchers should also base their research on a bigger sample to increase the qualitative data obtained for purposes of desired findings and achieving their objectives fully.
REFERENCES


APPENDICES

APPENDIX I: INTRODUCTORY LETTER

Catherine Wendo,
United States International University,
P.O. Box 14634 – 00800,
Nairobi, Kenya.

Dear Respondent,

RE: RESEARCH STUDY.

I am a graduate student at the United States International University (USIU) – Africa pursuing a Masters degree in Business Administration (MBA). As part of my program, I am currently undertaking a research study research project on “Factors Influencing Individual Investors’ Decisions in the NAIROBI SECURITIES MARKET. A Case of Advocates in Nairobi County”, with the aim of identifying the reasons for low individual participation and challenges facing investors.

Your participation in this study is essential and will be highly appreciated. Kindly spare a few minutes to fill in the attached questionnaire which will take you approximately 10 minutes to answer.

I assure you the information provided will be treated with the utmost confidentiality and will only be used for academic purposes. Thank you for your time.

Yours faithfully,

Catherine Wendo.
APPENDIX II: QUESTIONNAIRE

SECTION A: BACKGROUND OF THE RESPONDENT

1. Indicate your gender:  Male □ □ Female □ □

2. Marital Status:  Single □ □ Married □ □ Divorced □ □

3. Indicate your highest academic/professional qualification
   Graduate □ □
   Post graduate □ □

4. Indicate your age bracket
   Below 40 years □ □
   41-50 years □ □
   Above 51 years □ □

5. What is your average monthly income?
   Below Kshs 50,000 □ □ Kshs 101,000 – 150,000 □ □
   Kshs 51,000 – 100,000 □ □ Above Kshs 151,000 □ □

SECTION B: INDIVIDUAL INVESTMENT OBJECTIVES AND RISK PROFILES

1. What kind of an investor are you?
   Speculative (short-term) □ □
   Capital Long (long term) □ □
   Both □ □

2. Approximately what portion of your net income would you set aside for investment?
   Less than one eighth □ □ Half □ □
   A quarter □ □ More than half □ □

3. What would be your preferred investment avenue?
Shares
---
Fixed income securities (e.g. government bonds, fixed deposit account)
Real estate and other ventures

4. What are your reasons for investing?

- To increase savings
- For capital growth and preservation
- To increase income
- To finance expenses
- For sustainable long-term growth
- Combination of income and capital growth

5. State whether the following statements are true about your investment decisions.

Tick (√) the right response

**SECTION C: FACTORS INFLUENCING INDIVIDUAL INVESTMENT DECISIONS**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Highly Disagree</th>
<th>Somehow Disagree</th>
<th>Agree</th>
<th>Somehow Agree</th>
<th>Highly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I assess and mitigate financial risk before investing</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>I am averse to uncertainties</td>
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<tr>
<td>I prefer lower chances of losses</td>
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<tr>
<td>I choose not to operate in unfamiliar situations</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>I usually require more information about an investment before I invest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1. Please evaluate the degree of your agreement with the following statements. Tick (✔) the right response.

<table>
<thead>
<tr>
<th></th>
<th>Highly Disagree</th>
<th>Somehow Disagree</th>
<th>Agree</th>
<th>Somehow Agree</th>
<th>Highly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I believe that my skills and knowledge of the securities market are sufficient to make sound investment decisions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My family and religious background influence the financial decisions I make.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I rely on professional and investment advisors expertise when making investment decisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My investment decisions are influenced by popular opinion about the market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I usually focus on recent trends in returns / profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My decisions depend on financial information available in the market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My decisions are based on opinions of friends and colleagues</td>
<td></td>
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</tbody>
</table>

**SECTION D: THE LEVEL OF AWARENESS OF INVESTING IN THE NSE**

1. State your status concerning investment in equity stocks/shares

I am already participation in securities market ✔

I have intentions of participation although I have not started ✗

I don’t know much about the securities market ✗

2. What has been your frequency of buying and selling of shares?

High ✔ Moderate ✗ Low ✗ Never ✗
3. Do you rate equity securities/shares as an investment just like real estate and other Ventures?
   Yes  [ ]  No  [ ]

4. How do you rate your financial literacy i.e. your knowledge about financial and Investment terms?
   High  [ ]  Medium  [ ]  Low  [ ]

5. Where do you get information on the stock exchange?
   Family, friends and acquaintances  [ ]
   Professional financial advisors  [ ]
   Newspapers and financial magazines  [ ]
   Guides and books  [ ]
   Internet  [ ]

6. What is your biggest challenge in making an investment decision in the NSE on how to allocate your resources?
   Lack of sufficient information  [ ]
   Fear of the past  [ ]
   Lack of proper understanding of securities market  [ ]
   Other……………………………………………………………………..
7. Indicate whether the following statements are true or false about the stock exchange. Tick (✓) the right response.

<table>
<thead>
<tr>
<th>Statement</th>
<th>True</th>
<th>False</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks are normally riskier than bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>When an investor spreads his money among different assets, he/she increases the risk of losing money</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buying a company stock usually provides a safer return than a stock mutual fund.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A bond can be sold before maturity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>You do NOT have to open a CDS account in order to participate in the Securities Market</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Thank you for your time!**