EVALUATION OF FACTORS CONTRIBUTING TO LOW CONFIDENCE IN NAIROBI SECURITIES EXCHANGE AMONG PROFESSIONALS IN USIU-A

BY

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STUDENT’S 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 in Nairobi for academic credit.

Signed: __________________________  Date: _____________________________

Maina Peter Gathekia (Id No: 645361)

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

Signed: __________________________  Date: _____________________________

Dr. Sammy Lio

Signed: __________________________  Date: _____________________________

Dean, School of Business
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ABSTRACT

The objective of the study was to examine the factors contributing to low confidence in the Nairobi Securities Exchange among professionals in USIU-A. This research sought to establish how investors’ individual factors contribute to low confidence in the Nairobi Securities exchange among professionals in USIU-A, how regulatory policies contribute to low confidence in the Nairobi Securities exchange among professionals in USIU-A and how market factors contribute to low confidence in the Nairobi Securities exchange among professionals in USIU-A.

Descriptive research design was used. The population of the research comprised of the 330 USIU-A employees drawn from staff and faculty. Stratified random sampling technique was employed to identify homogeneous population groups to be represented in the final sample from which data was collected using simple random technique. The study used questionnaires with both open and closed ended questions to collect data from the employees at their respective offices. One-sample statistics test, T-test value of 2 and frequency distribution were the descriptive statistics techniques used to analyze the data findings. The results were presented in the form of tables and graphs.

The study established that the individual factors contributing to low confidence in the NSE among USIU-A employees include: social interaction, financial knowledge, investor preference, risk tolerance, investor sentiment, herding effect and perceived level of returns.

The regulatory factors contributing to low confidence in the NSE among the employees included the following as disclosed by the findings of this study; capital controls, transparency and disclosure requirements, political climate, tax policies, trading rules and government securities such as treasury bills and bonds.

The study also established that the market factors contributing to low confidence in the NSE among the employees include: Asset pricing, interest rates and inflation, exchange rates, market efficiency, asset liquidity and investors’ perception of the Kenyan economy.

The survey concludes that indeed the identified individual, regulatory and market factors contribute to low confidence in the NSE among the USIU-A employees holding other factors constant.
The study recommends appropriate measures to be taken to boost investor confidence in the NSE based on the findings. That includes proper civil education and dissemination of information relating to NSE, changes in the regulatory policies relating to taxation and enhancement of the country’s political climate. The trading process should also be made easier and proper rules should be developed to deal with fraudulent activities surrounding issue of securities especially in the primary market.
ACKNOWLEDGEMENT

Firstly, I thank God Almighty for the opportunity to undertake a Masters degree at USIU-A and acknowledge that indeed, it is by his grace I’ve come this far.

I would like to express my gratitude to my supervisor, Dr. Sammy Lio for his professional assistance and support. I thank him for his time and valuable input that made this project a success.

To my mum and dad, Mr. and Mrs. Maina, I thank you for all your love and support since I was a young boy. I really appreciate you and pray that may the Lord give you good health and happiness each and every day.

My brother and sisters, I thank you all for being there for me.
DEDICATION

To my father, Douglas Maina, thank you for the sacrifices you made to make me who I am today, for instilling discipline in me and for always reminding me that nothing is impossible.

To my mother, Agnes Wairimu, thank you for your love and prayers.
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<td>Capital Markets Authority</td>
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<td>EMSI</td>
<td>Equity Market Sentimental Index</td>
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<td>Foreign Direct Investment</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Seetanah and Sawkut (2006) note that Securities markets play a very important role in the economic development of a country through the promotion of efficient resource allocation and growth. A more developed equity market also provides liquidity that lowers the cost of foreign capita that is essential for development. Adjasi and Biekpe (2006) argue that the presence of well-developed Securities markets mitigate the principal agent problem and reduce information asymmetry while providing opportunities for savers to allocate capital in productive investments. However, if capital markets are to fulfill their function effectively, the suppliers of capital must have confidence that their investments in the listed securities will not result into unprecedented losses and that the market price of those securities is an efficient estimate of the intrinsic value of the underlying assets that the capital represents (Ryan, 2007).

Despite the prospect of high returns in the capital markets, many retail investors in Kenya shy away from committing their funds in the listed securities due to low confidence in the Securities markets Woldie and Murinde (2014). Professionals in Kenya represent a vibrant working class, majority of whom continue to actively look for investment opportunities to supplement their employment income. Their investment preference continues to be mainly in real tangible assets such as land and vehicles while overlooking listed securities (Oxford Business Group, 2015). The Oxford Business Group also notes that the Kenyan Financial system has not been very successful in encouraging savings more so due to perceived lack of desirable investment opportunities among majority of the working population.

An investment decision involves a choice on how to commit funds now in anticipation of expected flow of benefits in the future. It is an exchange of current funds for future benefits. If an individual chooses to invest and defer consumption, he will do so according to the utility theory by selecting a portfolio that maximizes his satisfaction. Axioms of utility theory require investors to be completely rational, able to deal with complex choices, risk averse and wealth maximizing (Nagy & Obenberger, 1994). The great trade off in investing is between risk and return. Return is the income received on
an investment plus any change in market price. An investor can receive returns from stocks when prices of the stocks go up over time or when dividends are paid (Mishkin & Eakin, 2007). Risk is the variability of returns from those that are expected. Utility is maximized when an investor gets highest expected return for any given variance or minimum variance for a given expected return.

Recent economic reforms in Kenya have seen young professionals develop major preference for agribusiness and reselling of technology products. According to the Kenya Economic Outlook Report (2015), new local investors prefer setting up sole proprietorship businesses to Securities market investments. Most of the new businesses being set up are in the service sector, closely followed by the agricultural and real estate sectors.

Investment in Securities involves two types of markets; 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 (Mishkin and Eakin, 2007). The Securities exchange market is a secondary market in which already issued shares are bought and sold.

Securities exchange markets are important as they provide a ready market for those who want to buy and those who want to sell securities thus making financial instruments liquid. The market publishes useful information in statistical and summary form about various companies for guidance. It keeps an eye on the financial affairs of every company whose shares are bought and sold through it (Irungu, 2011).

In Kenya the only organized Securities market is the Nairobi Securities exchange (NSE). The Nairobi Securities exchange has a long history which can be traced back to the 1920s when it commenced as an informal way of dealing in shares. Now it is quite advanced with the creation of the capital market authority (CMA) and introduction of the central depository system (NSE, 2016).

According to Irungu (2011), the Kenya Electricity Generating Company (KenGen) IPO in 2006 opened the door for retail investors at the NSE, raising their number to nearly 500,000 from just about 80,000 before the issue. Between 2006 and 2008, a number of companies have listed at the bourse including Scangroup, Safaricom, Cooperative bank,
Kenya Re, Equity Bank and Eveready East Africa. For the first time, the number of individual investors passed the one million mark, with Safaricom alone bringing in 860,000 new accounts in 2008.

Uptake of IPOs has not been very rosy after the Safaricom IPO. Many people took part in the IPO but have yet to see substantial returns (with shares currently selling below the offer price of Kshs. 5). In contrast, investors in KenGen bought shares at Kshs11.90 per share during the IPO and some sold them at Kshs. 63. In the past eight years, individual investors have sold more than half of their Securities at the NSE, leaving institutional investors (who dominated trading before the 2006 KenGen share sale) firmly in control of the market. According to the capital markets regulator, individual investors cut their investments in equity from a peak of 27% of the market capitalization in 2008 to 14% in 2010. Two thirds of NSE listed companies have recorded net exits of individual shareholders, leaving room for institutional investors to increase their stake (Mulwa, 2011).

Professionals refer to those people who are in a paid occupation or who engage in a specified activity with an aim of generating income. For the purposes of this study, professionals will include USIU-A office team and faculty members. They have salaries and access to credit both from savings and credit cooperative societies (SACCOs) and commercial banks. USIU-A is a one of the biggest private universities in Kenya with a culturally diverse student population in terms of race, ethnicity and religion. Male and female students here compare very well in numbers, with females accounting for slightly more than half of the total population.

1.2 Problem Statement

In classical economic theory, it is assumed that investors are rational and competent. The theory assumes that investors have the same preference, perfect knowledge of all alternatives and an understanding of the consequences of their decisions. Markets are assumed to be efficient. Neither technical nor fundamental analysis would enable an investor to achieve returns greater than those that could be obtained by holding a randomly selected portfolio of individual Securities with comparable risk (Malkiel, 2003).

However, psychologists from the branches of cognitive and experimental psychology have made the argument that the basic assumptions of classical decision making theory
are incorrect since individuals often act in a less than fully rational manner. In particular, the seminal work by Kahneman and Tversky (1979) advocated the prospect theory which assumes departures from rationality. The theory assumes that people are loss averse in which they are more concerned with losses than gains and as a result, a person will assign more significance to avoiding losses than achieving again. The administration staff and faculty members in USIU-A are typical of the informed potential retail investing public in the Securities market. They have some disposable income from salaries and access to 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 staff and faculty have the technical capability to evaluate listed securities and to analyze basic fundamental issues of the publicly traded companies.

In recent years, companies listed at the NSE have experienced major exit of individual shareholders (Ndiege, 2012). A study conducted in Kenya by the Oxford Business Group (2015) indicated that only a paltry four percent of Kenyans actively invest in the Nairobi Securities Exchange and that 70 percent of the market turnover is generated by foreign investors. The study also indicated that Kenyan investors pulled out of the Securities market completely in favor of other ventures. There was need to build on the findings of that survey to identify the factors contributing to low confidence in the security markets in Kenya among informed retail investors.

1.3 Purpose of the Study

The purpose of this study was to evaluate the factors contributing to low investor confidence in the Nairobi Securities Exchange among professionals in USIU-A.

1.4 Research Questions

1.4.1 How do investors’ individual factors contribute to low confidence in the Nairobi Securities Exchange among professionals in USIU-A?

1.4.2 How do regulatory policies contribute to low confidence in the Nairobi Securities Exchange among professionals in USIU-A?

1.4.3 How do market factors contribute to low confidence in the Nairobi Securities Exchange among professionals in USIU-A?
1.5 Importance of the Study

The study can be useful to the following constituents:

1.5.1 NSE regulators

The findings from the study will provide information to the NSE regulators in their effort to attract retail investors to the Nairobi Securities Exchange. In order to attract higher retail investments, the regulator will first need to understand the factors causing low investor confidence in the market and device workable solutions to counter those factors.

1.5.2 Researchers and Academicians

This study acts as a source of reference and information to other researchers to develop on investor behavior and give more reliable consultant information to the researchers. Future research can build on the findings of this study to further broaden the knowledge of causes of low confidence in NSE as well as seek measures of improving investor confidence.

1.5.3 Investors

This study will provoke curious investors to re-evaluate their perceptions of the NSE and in the process gather more information which could help them change their attitudes towards the market. It will also help them assess the current regulatory developments in the market based on the identified variables.

1.5.4 Investment Advisors

The study will help investment advisors to give the right information to suit the needs of the different calibers of their clientele. The findings of this study represent the attitudes and perceptions of potential investors which can be used by investment advisors to offer better advisory services to their clients.

1.5.5 Financial Educators

This study will enlighten financial educators on how confidence influences investment decisions. The findings of this study can be used as a guide for developing curriculum in finance education especially in relation to investor confidence. The educators can also
generate discussion topics from the findings of this study to provoke the minds of their students and further enhance this area of knowledge.

1.6 Scope of the Study

This study sought to evaluate the factors contributing to low confidence in Nairobi Securities Exchange among professionals in USIU-A. Professionals in USIU-A include all the staff members, the faculty team and working students. However, for purposes of this study, only the USIU-A office employees and faculty members were considered. The study was conducted between May and June 2016.

The researcher experienced some constraints during the study. They included non responsiveness, unwillingness to participate and biased information. To mitigate against these limitations, the researcher ensured the respondents of high confidentiality levels, use of follow-up calls and data filtering.

1.7 Definition of Terms

1.7.1 Individual Investor

An individual or retail investor is a person who purchases small amount of securities for themselves. Individual investors suffer some disadvantages arising from capital constraints such as inability to access professional investment advisory services and end up speculating in the market (Schmidt and Sevak, 2006).

1.7.2 Investment Decision

Investment decision refers to the determination of where, when, how, and how much capital to spend and debt to acquire in the pursuit of making a profit. An investment decision is often reached between an investor and investment advisors (Rajarajan, 2007).

1.7.3 Market Factors

Securities market factors are the fundamental forces that move Securities prices. They range from the general economic outlook, interest rates, inflation, market infrastructure and market microstructure. They differ from one market to the other (Aduda, et al.,2012).
1.7.4 Financial Education

Financial education is defined by Noctor et al (1992) as the process of gaining financial knowledge and literacy from particularly designed courses in finance.

1.7.5 Financial Literacy

This is defined by Seth et al., (2010) as the process of understanding different financial products and services in a financial market and applying that knowledge in making rational decisions with an aim of realizing a profit.

1.7.6 Capital Market

A capital market is a regulated market for both debt and equity securities, where business enterprises and governments can raise long-term funds (Aduda, et al.,2012).

1.8 Chapter Summary

This chapter presented the background on investor behavior and the investment problem at the NSE among retail investors. The chapter also covered the problem statement, research objectives, importance of the study, scope of this study and also definition of key terms used in this project. Chapter two reviews literature on the factors contributing to low investor confidence; it determines the influence of investor knowledge on confidence in Securities markets, it establishes the market related factors on investor confidence and it determines the influence of the external factors on investor confidence. Chapter three covers the research methodology. Chapter four presents the data analysis and key findings of the study while chapter five covers the conclusions and recommendations of the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter covers literature review of the existing research literature on how investor knowledge influence confidence in Securities markets, how government policies can influence confidence in Securities markets and how market factors contribute to low confidence in Securities markets among professionals.

2.2 Impact of Individual Factors on Investor Confidence in Securities Markets

Dante (2004), defined Investor Confidence as the expectations of future Securities market stability that is an important factor in determining the volatility of Securities markets. Syed, Safdar and Arshad (2009) argued that decisions concerning investment were dependent on information and the fast and more reliable the information was, the less likely investors would make decisions based on emotion and the herd instinct. Pangano (1993) observed that institutional and regulatory factors manipulated the functioning of Securities markets.

2.2.1 Investor Preferences

Investors display various investment needs which include safety of principal amount, liquidity, income stability, appreciation and ease of transferability (Statman, 2014). The needs are mostly influenced by their financial literacy, risk tolerance and wealth. Hussein (2007) found that expected corporate earnings, get rich quickly, Securities marketability, past performance of the firm’s Securities, government holdings, and the creation of the organized financial markets are the investors considerations. Brown (2004) provided tentative evidence that risk aversion decreases as the investor’s wealth increases and financial literacy increases by building on LeBaron, Farrelly and Gula (1992) findings that individuals’ risk aversion is largely a function of visceral rather than rational considerations.

The disposition error shows that regardless of accounting information, investors are influenced by sunk cost considerations and asymmetrical risk preferences for gain/loss situations. The research findings by Statman (2014) which examined factors influencing investor behavior, suggested that classical wealth – maximization criteria are important to
investors, even though investors employ diverse criteria when choosing Securities. Contemporary concerns such as local or international operations, environmental track record and the firm’s ethical posture appear to be given only cursory consideration. The recommendations of brokerage houses, individual Securities brokers, family members and co-workers go largely unheeded. Many individual investors discount the benefits of valuation models when evaluating Securities.

Kiran and Rao (2005) examined whether demographic and psychographic variables were effective on risk-bearing capacity of Indian investors by conducting a sampling survey. By analyzing the collected data through multinomial logistic regression and factor analysis (FA) of SPSS, they verified a strong relationship between risk taking attitude and demographic and psychographic variables.

Geetha and Vimala (2014) investigated the effect of demographic variables on the investment decisions by performing a sample survey method in Chennai, India. According to analysis results, from the investors’ point of view, changes in demographic factors such as age, income, education, and occupation had an influence in the investment avenue preference.

Lodhi (2014) examined the impact of financial literacy, high experience, use of accounting information, importance of analyzing financial statements and age on the investor preference by applying a survey in Karachi, Pakistan. By using SPSS, correlation analysis was performed in order to determine the relation between the aforementioned variables. According to empirical results, it was verified that investors’ preference for risky investments decreases, as age and experience increase.

### 2.2.2 Investor Sentiment

According to theoretical and empirical studies, investor sentiment has a strong impact on Securities prices, with crucial implications for portfolio selection and asset management (Brown and Cliff, 2004). Baker and Wurgler (2006) suggests that investors are subject to sentiment and that there are noise traders, or irrational traders, who may not apply a company’s fundamentals when making investment decisions. Therefore, unpredictable and unexpected changes in the sentiment of irrational traders can have a substantial impact on Securities prices. Kumar and Lee (2006) says that because rational and
irrational investors in the financial markets act together, irrational investors’ trading behaviors can have an important effect on Securities prices.

Brown and Cliff (2004) investigates the role of investor sentiment on near-term Securities market returns. They provide evidence that many commonly cited indirect measures of sentiment are related to direct measures of investor sentiment. They also show that past Securities returns are an important factor for investor sentiment. Although investor sentiment fluctuations are significantly correlated with Securities returns, their tests reveal that investor sentiment has little explanatory power on near-term future Securities returns.

Baker and Wurgler (2006) provide evidence that investor sentiment has significant cross-sectional effects in the US Securities market. They predict that a certain level of investor sentiment has an impact on Securities whose valuations are highly subjective and are difficult to arbitrage.

Another study conducted by Lemmon and Portniaguina (2006) investigates the role of investor sentiment in US Securities market returns. Their findings are consistent with the behavioral finance theory that investor sentiment affects Securities returns. Barber et al. (2009) study returns of Securities that are heavily traded by US individuals by using transaction data. They provide evidence consistent with the theory that individual investors herd or are noise traders. Kaniel et al. (2008) also show that net buying and selling pressure of individuals positively forecasts future Securities returns over a short horizon, which might be up to one month.

A study by Kiplangat et al. (2009), observed that investor sentiment was affected by the daily movement in price in the NSE and this had been captured in the Equity Market Sentiment Index (EMSI) which included the capital market related news and events. They went on and stated that the psychology of an investor was a potential explanation for movement in Securities prices. They clearly noted that important determinants of Securities market growth were the economic growth given by Securities market capitalization and Securities market liquidity given by total shares traded and turnover.

2.2.3 Herding Effect

Kengatharan (2014) defines herding effect in financial market as tendency of investors’ behaviors to follow the others’ actions. Herding is considered important due to the fact
that investors rely on collective information more than private information. Tan et al. (2008) suggest that the herding effect can influence the attributes of risk and return models and this has impact on the viewpoints of asset pricing theories. In the perspective of behavior, herding can cause some emotional biases, including conformity, congruity and cognitive conflict, the home bias and gossip. Investors may prefer herding if they believe that herding can help them to extract useful and reliable information. However, financial literacy and knowledge in Securities markets reduces the extent of herding among investors.

2.2.4 Risk Tolerance

Kiran and Rao (2005) suggested that investors could be classified either as risk takers or risk averse. However, risk propensity and risk perception of the investor are influenced by their past experience and their financial literacy which enables them to evaluate the fundamentals of asset valuation. Kathleen (2005) indicates that investors risk tolerance increases if they have successful past experience and decrease in case of having unsuccessful experience of past.

Kahneman and Tversky (2000) pointed out that some investors behave like risk averse in winning situation and become risk seekers in case of losing situation and commit mistakes in their financial decisions. High risk tolerant investors will constitute a portfolio of relatively high risk and low risk tolerant investors will constitute low risk securities portfolio. Rashid and Nishat (2009) identifies that und selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds. Investors demographics found to be insignificant in accordance with their trading experience. (Gagnon and Karolyi, 2004). Also, Kiran and Rao (2005) identify investor group segments using the demographic characteristics of investors as risk averse and risk takers and suggests that the two categories will possess varying confidence levels in the Securities markets.

2.2.5 Social Interaction

Hong, Kubik and Stein (2004) suggested that social interactions help to increase market participation. In their study, they concluded that households who have peers participating in Securities markets are also attracted to participate in the market. Even though most professionals possess financial literacy especially in America, empirical evidence indicate
that they are still influenced by social interactions in their decision to participate in Securities markets. New investors base their expectations on the past returns of their peers who have been participating in the market (Shefrein, 2005).

In the specific setting of Securities markets, social interaction takes place in two major ways: observational learning and through talking up experiences with other households who are participating in the market about the ups and downs with an aim of boosting one's confidence in their investment (Shefrein, 2005). Therefore, social interactions play a major role in not only influencing participation but also in enhancing the investor confidence in Securities markets and it is more common among financially literate investors.

**2.3 Impact of Government Policies on Investor Confidence**

Antwi et al. (2012) defines government policies as a plan or course of action by the government geared towards achieving desired macro economic variables. They also state that fiscal and monetary policy actions have to be used concurrently and not separately for desired results to be achieved.

The government’s fiscal and monetary policies disrupt the interest rates in the economy and force investors to evaluate their portfolio. Other regulatory policies may also have a direct impact on the security markets. It is therefore appropriate to evaluate the effects of these policies on the Security market as they may help build investor confidence in the market and influence investor decisions (Antwi et al., 2012).

The following Government policies were selected for review as they directly influenced investor perception of the Security markets as well as confidence and investment decisions.

**2.3.1 Capital Controls in the Security Markets**

Kaplan and Sommers (2009) suggest that capital controls can prove ineffective, undercut market confidence even further, and be used to delay needed adjustments. This was likely to happen if the investors perceived the imposed capital controls as unnecessary and restrictive.

Kaminsky and Schmukler (2000) also argued that, while capital controls were successful in lowering interest rates, stabilizing the exchange rate, and reducing the co-movement of
Malaysian overnight interest rates with regional interest rates during the Asian Crisis, they failed in boosting market confidence among investors. This was mainly due to the public opinion that the crisis itself was a result of poor government policies and the investing public feared that further controls could only worsen the situation. Introduction of capital controls proved ineffective in improving the level of trust in Asian markets and did not result to increased investments.

A study by Gagnon and Karolyi (2004) also indicate that capital controls on cross-country capital movement are also expected to affect the cross-market premium. They argue that the effects vary by type of capital control and tend to be asymmetric. To the extent that these controls are effective in limiting the ability to transfer funds across borders, the cross-market premium would reflect the desire of investors to purchase the securities inside or outside the country. They concluded that different types of capital controls would impact the market differently in relation to capital movements.

According to Yeyati and Schmukler (2008), controls on capital outflows would exert upward pressure on the price of the underlying Securities relative to the depository receipt, since investors can purchase the security domestically and sell it in the international market, without paying the tax to move funds outside the country. That is, though controls on outflows restrict the transfer of funds abroad, securities can still be moved from the domestic market to the international one, effectively allowing investors to obtain cash outside the country through the sale of those securities. This would be an indirect cash outflow from the original country without violation of the country’s capital controls on funds transfer.

Lack of proper capital controls however, can cause more damaging incidences such as collapse of major banks and brokerage firms. This has been experienced in the Nairobi Securities Exchange several times, most notably when the damaging audit report on the collapsed Nyaga Stock brokers became public and led to its collapse resulting to investors’ loss of confidence and money as well. When the Nairobi Securities Exchange regulator, Capital Markets Authority, moved in on Discount Securities, by putting the firm under statutory management, this sent further panic into the market and investors could only attribute the instances to regulatory and governance failures. These occurrences would have been preventable if proper controls were in place way before the faltering of these brokerage firms as such would have prevented the regulator from
making sudden moves which caused shocks in the market. This is because sudden tight capital controls send negative signals to the market as the public may perceive them as a signal for major adverse occurrences and possible losses to the investors (Kiplangat et al., 2009).

2.3.2 Transparency and Disclosure Requirements

Baamir (2008) notes that many emerging markets are characterized by poor transparency and lack of proper market infrastructure. Using his study of the Asian markets, he found that lack of proper transparency and disclosure results to informational inefficiency and consequently creating room for insider trading. This is mainly occasioned by insiders who withhold key information with an aim of serving their personal interests. They can also release deceptive information thus knowingly misleading the investors. This impacts the confidence of the investors who develop negative perceptions towards the market as a result.

Aduda (2012) contend that information asymmetries abound in financial markets. The managers of a firm know more about that firm's market prospects and investment opportunities than do outsiders. Financial market professionals also often have access to information that is not widely available. In an unregulated market, the possibility exists that unsuspecting investors will be harmed by those with access to information not available to the public at large. Transparency and disclosure regulations are therefore important for the economy because lack of public confidence in securities markets would cause the supply of funds to the markets to dry up, thus depriving the economy of the benefits of a functioning market. Disclosure requirements for public companies must ensure that all material financial information is available for investors in a way that facilitates inter-company comparisons and that such information is incorporated in the company’s stock prices. This would therefore lead to efficient determination of asset prices and further boost investor confidence. It must be noted, however, that disclosure is only effective if there are good accounting standards in place, standards that allow investors to assess the financial health of enterprises and also to compare available information for different entities in the market.

Kothari (2008) suggests that the information contained in the financial statements of corporations should be sufficient for investors' decision making. The regulatory framework should provide for the information disclosure and also transparency and
provide guidelines for the type of information that should be published for the consumption of the general public. He also adds that such information should be complete and accurate.

Baamir (2008) notes that market discipline can be imposed on institutions by investors, depositors, customers, and creditors if there is a high level of transparency that will improve the institutions' management of its activities and risk exposure in a manner that is prudent and consistent with its business objectives. Higher levels of transparency might contribute to the ability of firms to evaluate and manage their exposure to counterparties. It also reduces the likelihood that a company will be susceptible to market rumours and misunderstandings during periods of financial stress.

The Basel Committee and the IOSCO Technical Committee issued a consultative paper in 1999 encouraging companies to provide meaningful summary information, both qualitative and quantitative, about their trading and non-trading activities. Disclosures should provide a clear picture of the scope and nature of an institution's trading and derivatives activities and illustrate how these activities contribute to an institution's earnings profile. Institutions should disclose information on the major risks associated with their trading and derivatives activities, including credit risk, market risk, liquidity risk, operational risk, legal risk, and reputational risk (Baamir, 2008).

### 2.3.3 Political Climate

Zakaria (2008) in his research about investment in Pakistan evaluated the investment climate in Pakistan. In his Paper, he highlighted that high cost of doing business, political instability, corruption, government bureaucracy, inconsistent government policies and poor law and order situation discourage the investors. He noted that there cannot be confidence in government institutions in the absence of a conducive political climate. He therefore advocated for governments to put in place measures such as non tolerance of corruption, reduced level of government bureaucracy and low cost of doing business as some of the measures of attracting and retaining investors.

Kumar (2011) examined the factors influencing investor behavior by conducting a survey in India. The findings suggested that earning per share (EPS), foreign direct investment (FDI), and GDP growth rate are positively correlated and have a significance impact on Securities prices of companies listed in KSE (Karachi Securities Exchange). They
attributed GDP growth and Foreign Direct Investment to the Government of India’s fiscal policies and deduced that the government had a direct impact on the Stock market through its policies. Their findings also suggested that ordinary investors have lots of awareness about these variables when they invest in the security market and as such, poor government policies would result to low investment in the security markets among informed investors.

2.4 Impact of Market Factors on Investor Confidence

Securities market factors are the fundamental forces that move Securities prices. They market stability, the general economic outlook, interest rates, inflation, market infrastructure and market microstructure (Aduda, et al., 2012).

2.4.1 Market Stability

Chowndry and Nanda (1998) defined an unstable market as one in which security prices can move rationally even in the absence of changes in economic fundamentals. They based their study on the findings of Genotte and Lelland (1990) who had suggested that small information causes unproportionally large changes in prices of securities. The study also suggested that price changes may occur even with no new information as long as there is more than one round of trading and subsequent changes in demand and supply levels.

Slovik (2005) says that while known factors are already reflected in the efficient prices, the main source of market instability is unknown factors which in many cases remain difficult to quantify. Schmukler and Kaminsky (2002) conducted a research on the effect of credit ratings on market stability and concluded that changes in credit ratings affect both Securities and bond yields by at least two percentage points. Such changes on credit ratings were found to be caused by market volatility and instability and drastic changes have the ability to cause panic in the security markets due to investors fear of losing their money.

2.4.2 Interest Rate Changes

Good investors always look for investing in an efficient market. In an inefficient market few people are able to generate extra ordinary profit causes of confidence losses of general people about the market. In such cases, if the rate of interest paid by banks to
depositors increases, people switch their capital from share market to bank. This will lead to decrease the demand of share and to decrease the price of share and vice versa. On the other way, when rate of interest paid by banks to depositors increases, the lending interest rate also increases leading to decrease in the investments in the economy (Alam and Uddin, 2009).

Fama (1970) argues that expected inflation is negatively correlated with anticipated real activity, which in turn is positively related to returns on the Securities market. Therefore, Securities market returns should be negatively correlated with expected inflation, which is often proxied by the short-term interest rate. On the other hand, the influence of the long-term interest rate on Securities prices stems directly from the present value model through the influence of the long-term interest rate on the discount rate.

Nissim (2003) and Zhou (1996) also studied the relationship between interest rates and Securities prices using regression analysis and found that interest rates have an important impact on Securities returns, especially on long horizons, but the hypothesis that expected Securities returns move one-for-one with ex ante interest rates is rejected. In addition, their findings show that long-term interest rate explain a major part of the variation in price-dividend ratios and suggests that the high volatility of the Securities market is related to the high volatility of long-term bond yields and may be accounted for by changing forecasts of discount rates.

2.4.3 Investor Perception of the Economy

Kiplangat, Bitok, Tenai and Rono (2009) stated that confidence in the economy and specifically in the capital markets was a critical driver of economic and financial fluctuations and as well as that of the business cycle. They went on to state that as investor confidence increases, investors want to buy consumer goods, durables and invest at prevailing prices, whereas when confidence decreases, spending and risk-taking tend to fall.

The business cycles will therefore reflect on the Securities market with increased activity being observed during boom and less activity during recession. If the economy is growing steadily and inflation rates have been contained, investors in the Securities markets will have higher confidence in the market (Mayo, 2006).
The economic environment is a powerful source of influence over personal financial decisions. Certainly, the position on various stages of the economic cycle plays an important role. Even if other elements relevant to financial decisions remain constant, financial behavior is substantially different in periods of economic expansion compared to periods of recession (Ciumara and Slavescu, 2012).

Kumar and Padhi (2015) states that in principle, a well-developed Securities market should theoretically increase saving and efficiently allocate capital to productive investments that eventually increase the levels of economic growth. Levine and Zervos (1996) argue that Securities markets offer different kinds of financial services than the banking system, providing different kinds of impetus to investment and growth.

2.4.4 Immediacy

One of the major problems in emerging markets is lack of predictable immediacy, which is prescribed by the OECD (2006). If for example, there is an imbalance between buy and sell orders during a trading period, successive buy or sell orders would get noted on the trading board without counter sell or buy orders arriving at the market. Indeed, such imbalances would cause prices to move up or down in a volatile manner resulting to panic among investors especially the uninformed ones.

Immediacy refers to the ease with which a financial transaction is concluded from the time the buyer places an order to the time the payment is made and the deal closed. Immediacy therefore indicates market liquidity (Baamir, 2008).

Baamir (2008) also notes that lack of predictable immediacy encourages market manipulation and price inefficiency. Complicated trading rules and poor infrastructure are the major causes of poor immediacy.

Sagia (2006) conducted a study in Saudi Securities market and found that only 27 percent of the securities on the market were free for trading. He also concluded that as a result of low level of liquidity, majority of the shares are concentrated in the hands of the government and major business families, making the market be dominated by a small number of dealers. The government and other institutional investors are classified as value investors and do not look to offload their portfolios in short term. They simply buy and hold on to the securities for long periods of time as they wait for them to appreciate in
value significantly or until such a time when they urgently need cash.

### 2.4.5 Market Efficiency

An efficient capital market can be regarded as one that is efficient in processing information; hence this study referred to efficiency as informational efficiency as opposed to transactional efficiency. The market should therefore be quick and accurate in adjusting to new information. In informational efficient markets, prices of securities seen at any time were based on ‘correct’ evaluation of all information available at that time and the prices therefore immediately and fully reflected the available information (Mayo, 2006).

Mabhunu (2004) states that based on the EMH, an operationally efficient Securities market is anticipated to be both externally and informationally efficient. And due to this, the security prices at any instance are unbiased and they reflect all the available information based on the Security’s expected future cash flows as well as the risk involved in holding such a security. Mabhunu (2004) further stated that such markets provided accurate signals to allocate resources since the market price was representative of the Security’s intrinsic worth. He agreed that market prices deviated from the Security’s true value, but went on to state that those deviations were random and uncorrelated.

### 2.4.6 Market Infrastructure

A Securities market infrastructure consists of financial exchanges and clearing and settlement systems. At the global level, there has been growing interest among institutional and individual investors in maximizing the positive effects of international portfolio diversification, resulting in a rapid expansion in cross-border securities transactions. In particular, technological innovations have spurred these fundamental changes, causing less dependency on physical market locations and thereby exposing market participants to an increasingly competitive environment in both the domestic and the global arena. The integration process of all types of financial market has also increased the popularity of changes in ownership structure among the institutions which operate these markets. In responding to the new environment, many trading and post-trading service providers have started to behave like regular firms. As a result, exchanges and clearing and settlement organizations have switched from a business model based on
a mutual association with inside ownership to a for-profit, sometimes publicly listed company which is accountable to external shareholders (Schmiedel and Schonenberger, 2005).

2.5 Chapter Summary

The chapter focused on the views of other scholars on how investor knowledge influence confidence in Securities markets, how government policies can influence confidence in Securities markets and how market factors contribute to low confidence in Securities markets among professionals. The following chapter will cover the research methodology. This includes the research design, population and sampling design, data collection methods, research procedure and method of data analysis.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a discussion of the research methodology that was used in this study. It explains the research design more so with respect to the choice of the research design. It also covers the study population, size of the sample and sampling methods used, data collection methods and also data analysis and presentation methods used in this study.

The main purpose of this study was to analyze the causes of low confidence in Nairobi Securities Exchange among professionals in USIU-A.

3.2 Research Design

The research design was descriptive in nature. Hershberger and Reynolds (2007) defines descriptive statistics is that branch of statistics that deals with the collection, organizing, summarizing and presentation of sample data. Descriptive statistics is therefore important in drawing conclusions and describing characteristics associated with the subject population from which the sample was drawn. It is used to establish and measure cause and effect relationships among variables (Cooper and Schindler, 2001).

The descriptive research design was used to determine the causes of low confidence in the Nairobi Securities Exchange among professionals in USIU-A. With the low investment in Nairobi Securities Exchange among Kenyan citizens and low confidence in the market, the study sought to give more insight as far as this subject was concerned.

The study adopted the survey method of data collection. Sarandakos (2005) defines surveys as methods of data collection in which information is gathered through oral or written questioning. In order to reinforce the research design, the study adopted the use of structured questionnaires to collect primary data from professionals in USIU-A.
3.3 Population and Sampling Design

3.3.1 Population

Muro, Magutu and Getembe (2013) define a population as an entire group of individuals, events or objects inhibiting common characteristics. This represents the entire set of units of analysis or the total collection of elements on which inference is to be made (Cooper and Schindler, 2001). In this study, the target population comprised of 330 out of 384 USIU-A employees drawn from office staff and faculty. The USIU-A office staff and faculty members were selected as target population due to their education and income levels as well as career training which qualified them as professionals for the purpose of this study.

Table 3.1 Population Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Staff</td>
<td>250</td>
<td>76%</td>
</tr>
<tr>
<td>Faculty</td>
<td>80</td>
<td>24%</td>
</tr>
<tr>
<td>Total</td>
<td>330</td>
<td>100%</td>
</tr>
</tbody>
</table>


3.3.2 Sampling Design

3.3.2.1 Sampling Frame

According to Cooper and Schindler (2011), a sampling frame is a register from which the sample is drawn and it has to be similar or closely related to the population. It thus represents a complete and accurate population list of members only (Cooper and Schindler, 2001).

In this study, the sample frame comprised of the 330 office and faculty employees obtained from USIU-A (USIU-A Human Resource Office, 2016).
3.3.2.2 Sampling Technique

This study used the stratified random sampling technique to identify homogeneous members of the population represented in the final sample. According to Sarandakos (2005), it is a scientific sampling procedure which involves dividing the target population into various strata with homogeneous characteristics then drawing a sample from each stratum (Sarandakos, 2005). The professionals in USIU-A were classified into two strata; office staff and faculty members. A sample of 180 members was then drawn using simple random technique with 134 members being drawn from office staff and 46 members from faculty.

The simple random technique is a scientific data collection technique which gives each unit of the population an equal chance of being selected. The possibility of a unit being selected is not affected by the selection of other units from the population (Teddlie and Yu, 2007).

3.3.2.3 Sample Size

A sample size is defined by Collis and Hussey (2009) as a subset of the population. It gives the actual number of population members from which data is to be collected. A sample size of 180 was selected from a total population of 330 USIU-A employees. The sample size selected was due to members’ availability, time and cost of data collection. This study applied a 95% confidence level and a 5% margin of error.

Since the research design for this study is based on a simple random sample, the sample size required was calculated as follows:

\[ n = \frac{N}{1 + N(e)^2} \]

\[ n = \frac{330}{1 + 330 (0.05)^2} \]

\[ n = 180 \]
Table 3. 1 Sample Size Distribution
The intended sample sizes were selected randomly from each stratum and the coded questionnaires administered.

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Sample size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>USIU staff</td>
<td>250</td>
<td>134</td>
<td>76%</td>
</tr>
<tr>
<td>USIU Faculty</td>
<td>80</td>
<td>46</td>
<td>24%</td>
</tr>
<tr>
<td>Total</td>
<td>330</td>
<td>180</td>
<td>100%</td>
</tr>
</tbody>
</table>


3.4 Data Collection Methods

Primary data was collected using a questionnaire developed as per the specific objectives of the study. The questionnaire was crafted in four parts; the first part covered the demographic characteristics of the respondents, part two tackled the effect of investor knowledge on confidence in the Nairobi Securities exchange among professionals in USIU-A, the third part addressed the effect of Government policies on investor confidence and the fourth part handled the influence of market factors on confidence in the Nairobi Securities exchange among professionals in USIU-A.

Sarandakos (2005) notes that questionnaires are consistent, stable and uniform thus offering an objective view of issues, because the respondents are allowed to give their free views. This therefore allowed valid findings to be drawn from the study.

The questionnaire consisted of both open-ended and closed ended questions covering different variables of study. The questionnaire also employed both dichotomous as well as Likert scale questions. Open-ended questions allow free responses from the respondents, without providing or suggesting any format for the responses. The close ended questions ensure that participants’ responses are limited to provided alternatives (Bryman and Bell, 2003). The alternatives were structured in a simple and understandable way to the respondents. Close ended questions enabled isolation of the responses from external biases unlike the open ended questions which gave total freedom to the respondents to express their views and attitudes freely (Bryman and Bell, 2003).
3.5 Research Procedure

The questionnaire was piloted on five participants drawn from the targeted USIU-A Professionals. The five respondents who took part in the pilot study were not included in the study. The questionnaires were personally administered within USIU-A. The pilot study enabled the researcher to familiarize himself with the research and its method of administration as well as identify items that required modification.

Pre-testing of the questionnaire also aided in ensuring the validity of the research instrument. It provides the best opportunity for the researcher to seek honest opinions of experts in the field of study especially the researcher’s supervisor and the targeted population whom in this case are USIU-A professionals. It also ensures that the necessary revision and modification, if any, is made on the research instrument prior to the actual study. The study provided anonymity to the respondents and responses were treated with utmost confidentiality in order to realize a high response rate.

3.6 Data Analysis Method

The collected data was well examined and checked for completeness and comprehensibility. The data was then summarized, coded and tabulated. Data cleaning was then done and tabulated. The tabulated data was analyzed with the help of the Statistical Package for Social Sciences version 23 that has data handling and statistical analysis capability that can analyze data statistics and generate descriptive statistics.

Data was presented using tables and charts. The purpose of presentation of data was to highlight the results and to make data or results more illustrative by presenting in the form of figures and tables so as to make it easy to observe general trends.

Analysis involves the categorizing, manipulating and summarizing of data in order to obtain answers to research questions. It entails summarizing accumulated data to a manageable size, identifying patterns, and applying statistical methods (Cooper and Schindler, 2003).

The use of T-test value of 2 was adopted for the purpose of testing for the significance level between the various variables of the study objectives.
3.7 Chapter Summary

The chapter covered the method of research design used to carry out the study. The research design was descriptive in nature focusing on the causes of low confidence in Nairobi Securities Exchange among professionals in USIU-A. It also described the population, sampling technique, sampling frame and sample size used. The major method of collecting primary data was through the use of a structured questionnaire which was developed by the researcher based on the specific objectives. Descriptive statistics were analyzed through Statistical Package for Social Sciences version 23 (SPSS) program and Ms Excel.

The next chapter covered the results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

The purpose of this study was to evaluate the factors contributing to low investor confidence in the Nairobi Securities Exchange among professionals in USIU-A.

The first section presents the general information, that is, the gender of the respondents, level of education, profession, income level of respondents, finance courses done, respondents’ general knowledge of the NSE and investors’ trading experience in the NSE. Section 4.3 covers the responses on the contribution of investors’ individual factors on low confidence in the Nairobi Securities Exchange among professionals while section 4.4 reviews the contribution of regulatory policies on low confidence in the NSE among professionals and section 4.5 presents the contribution of market factors to low confidence in the NSE among professionals in USIU-A. The questionnaires were administered in June 2016 to a sample of 180 respondents out of a target population of 330. There was an 82% response rate with 148 members of the sample giving their responses. The findings were as presented below.

4.2 General Information

This section presents the general information on; gender of the respondents, profession of the respondents, level of education, income level of the respondents, level of financial knowledge, investor perception of the trading process at the NSE and suggested improvements at the NSE.

4.2.1 Gender of the Respondents.

The study sought to determine the gender of the respondents and as shown in table 4.1 below, 48% of them were male while 52% were female

Table 4.1 Gender of the Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>71</td>
<td>48</td>
</tr>
<tr>
<td>Female</td>
<td>77</td>
<td>52</td>
</tr>
<tr>
<td>Total</td>
<td>148</td>
<td>100</td>
</tr>
</tbody>
</table>
4.2.2 Profession of the Respondents

The study sought to establish the profession of the respondents and the findings as shown in table 4.2 indicated that 15% of the respondents were in finance, 11% in marketing, 6% in human resource, 44% in I.T & administration (General university student support staff and Registrar’s office staff), 23% Lecturing and 1% who worked in Cafeteria and transport department.

Table 4.2 Profession of Respondents

<table>
<thead>
<tr>
<th>Profession</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Finance</td>
<td>22</td>
</tr>
<tr>
<td>Marketing</td>
<td>16</td>
</tr>
<tr>
<td>Human Resource</td>
<td>9</td>
</tr>
<tr>
<td>I.T and Administration</td>
<td>65</td>
</tr>
<tr>
<td>Lecturing</td>
<td>34</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>148</strong></td>
</tr>
</tbody>
</table>

4.2.3 Level of Education of Respondents

The study sought to establish the level of education of the respondents and the findings in figure 4.1 indicate that 90% of the respondents were university graduates, 9% college and 1% high school.

Figure 4.1 Education Level of Respondents.
4.2.4 Income Level of Respondents

The study sought to establish the net income level of the respondents and the findings indicated that 17% earned between Kshs. 21,000-40,000 p.m., 23% earned between Kshs. 41,000-60,000 p.m., 35% earned between Kshs. 61,000-80,000 p.m., 19% earned between Kshs. 81,000-100,000 p.m. and 6% earned over Kshs. 100,000 p.m.

Table 4.3 Income Level of Respondents

<table>
<thead>
<tr>
<th>Income Level (Per Month)</th>
<th>Distribution</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21,000 - 40,000 KES</td>
<td>25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>41,000 – 60,000 KES</td>
<td>34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>61,000 – 80,000 KES</td>
<td>52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>81,000 – 100,000 KES</td>
<td>28</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 100,000 KES</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>148</strong></td>
<td></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.2.5 Level of Financial Knowledge of Respondents

The table below presents the findings on the level of financial knowledge of the respondents.

Table 4.4 Level of Financial Knowledge of Respondents

<table>
<thead>
<tr>
<th>Level of Knowledge</th>
<th>Distribution</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advanced</td>
<td>43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moderate</td>
<td>73</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elementary</td>
<td>32</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>148</strong></td>
<td></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The findings on the level of financial knowledge among the respondents indicated that 22% had elementary knowledge, 49% moderate knowledge and 29% advanced knowledge as shown in the chart below.
4.2.6 Finance Courses Taken

The findings on the finance courses taken by the respondents were as presented in the table below.

Table 4.5 Finance Courses Taken by Respondents

<table>
<thead>
<tr>
<th>Courses Done</th>
<th>Distribution</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>CFA</td>
<td>3</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>ACCA</td>
<td>12</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>CPA</td>
<td>22</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>MBA,Finance</td>
<td>34</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>BSc, Finance</td>
<td>45</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Basic Finance Management Courses</td>
<td>32</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>148</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

4.2.7 Investing in the NSE

The study found out that only 7% of the respondents had invested in the NSE while 93% had never invested in the NSE.
4.2.8 Investor Rating of NSE Returns

The study sought to find out how the respondents who had invested in the NSE felt about the level of returns from their NSE investments. Figure 4.3 below indicates that 50% of the respondents felt that the returns were average while 30% felt that the returns were good and a further 20% feeling that the returns were poor.

4.2.9 Investor Perception of the Trading Process at the NSE

The findings of the study indicated that majority of the respondents were not sure about the trading process of the NSE mainly because they had never invested in the NSE or they did it through a broker. The following figure 4.4 indicates that 40% of the respondents were not sure about the trading process, 30% perceived it as being very easy, 20% said it was easy and 10% said it was very complicated.
This section presents data on the individual factors contributing to low confidence in the NSE among professionals.

4.3.1 T Test for the Individual Factors Contributing to Low Confidence in the NSE

Table 4.6 T Test for Individual Factors

Using a test value of 2, majority of the respondents tended to agree with a mean of 3.11 for both financial knowledge and herding effect as major individual factors associated with low confidence in NSE, both level of returns and investor sentiment (mean of 3.07), risk tolerance (mean of 3.06), social interaction (mean of 2.95) and investor preference with a mean of 2.93 as shown in table 4.6 below.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social interaction</td>
<td>148</td>
<td>2.95</td>
<td>1.362</td>
<td>.112</td>
</tr>
<tr>
<td>Financial knowledge</td>
<td>148</td>
<td>3.11</td>
<td>1.400</td>
<td>.115</td>
</tr>
<tr>
<td>Investor preference</td>
<td>148</td>
<td>2.93</td>
<td>1.374</td>
<td>.113</td>
</tr>
<tr>
<td>Risk tolerance</td>
<td>148</td>
<td>3.06</td>
<td>1.444</td>
<td>.119</td>
</tr>
<tr>
<td>Investor sentiment</td>
<td>148</td>
<td>3.07</td>
<td>1.376</td>
<td>.113</td>
</tr>
<tr>
<td>Herding effect</td>
<td>148</td>
<td>3.11</td>
<td>1.407</td>
<td>.116</td>
</tr>
<tr>
<td>Level of returns</td>
<td>148</td>
<td>3.07</td>
<td>1.512</td>
<td>.124</td>
</tr>
</tbody>
</table>
Table 4.7 One-Sample Test for Individual Factors

One-Sample statistic tests were also done and the results in table 4.7 below indicate that there was a significant relationship between the outlined individual factors and low confidence in the NSE. Social interaction has $p<0.001$, financial knowledge ($p<0.001$), investor preference ($p<0.001$), risk tolerance ($p<0.001$), investor sentiment ($p<0.001$), herding effect ($p<0.001$) and level of returns ($p<0.001$).

<table>
<thead>
<tr>
<th></th>
<th>Test Value = 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$t$</td>
</tr>
<tr>
<td>Social interaction</td>
<td>8.510</td>
</tr>
<tr>
<td>Financial knowledge</td>
<td>9.627</td>
</tr>
<tr>
<td>Investor preference</td>
<td>8.259</td>
</tr>
<tr>
<td>Risk tolerance</td>
<td>8.938</td>
</tr>
<tr>
<td>Investor sentiment</td>
<td>9.501</td>
</tr>
<tr>
<td>Herding effect</td>
<td>9.639</td>
</tr>
<tr>
<td>Level of returns</td>
<td>8.642</td>
</tr>
</tbody>
</table>

4.3.2 Other Individual Factors contributing to Low Confidence in the NSE.

Other individual factors contributing to low confidence in the NSE as mentioned by the respondents included; negative past experiences in the NSE, lack of access to timely information about the NSE and investor desire for liquidity.

4.4 Regulatory Factors contributing to Low Confidence in the NSE

This section presents data on the regulatory factors contributing to low confidence in the NSE.

4.4.1 T Test for Regulatory Factors contributing to Low Confidence in the NSE

Using a test value of 2, majority of the respondents pointed out that disclosure requirements was the major regulatory policy contributing to low confidence in the NSE with a mean of 3.15. Political climate was also a major factor with a mean of 3.12
followed by capital controls with a mean of 3.11, trading rules (mean of 3.09),
government securities (mean of 3.04) and tax policies (mean of 2.99).

**Table 4.8 T Test for Regulatory Factors contributing to Low Confidence in NSE**

<table>
<thead>
<tr>
<th>Regulatory Factors</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital controls</td>
<td>148</td>
<td>3.11</td>
<td>1.336</td>
<td>.110</td>
</tr>
<tr>
<td>Disclosure requirements</td>
<td>148</td>
<td>3.15</td>
<td>1.509</td>
<td>.124</td>
</tr>
<tr>
<td>Political climate</td>
<td>148</td>
<td>3.12</td>
<td>1.355</td>
<td>.111</td>
</tr>
<tr>
<td>Tax policies</td>
<td>148</td>
<td>2.99</td>
<td>1.457</td>
<td>.120</td>
</tr>
<tr>
<td>Trading rules</td>
<td>148</td>
<td>3.09</td>
<td>1.304</td>
<td>.107</td>
</tr>
<tr>
<td>Government securities</td>
<td>148</td>
<td>3.04</td>
<td>1.423</td>
<td>.117</td>
</tr>
</tbody>
</table>

**Table 4.9 One-Sample Test for Regulatory Factors**

The below table 4.9 indicates that there was a significant relationship between regulatory factors and low confidence in the NSE. Capital controls as a regulatory factor had p<0.001, disclosure requirement (p<0.001), political climate(p<0.001), tax policies(p<0.001), trading rules(p<0.001) and government securities.

**One-Sample Test For Regulatory Factors**

<table>
<thead>
<tr>
<th>Regulatory Factors</th>
<th>Test Value = 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
</tr>
<tr>
<td>Capital controls</td>
<td>10.092</td>
</tr>
<tr>
<td>Disclosure requirements</td>
<td>9.260</td>
</tr>
<tr>
<td>Political climate</td>
<td>10.072</td>
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<tr>
<td>Tax policies</td>
<td>8.238</td>
</tr>
<tr>
<td>Trading rules</td>
<td>10.151</td>
</tr>
<tr>
<td>Government securities</td>
<td>8.894</td>
</tr>
</tbody>
</table>
4.4.2 Other Regulatory Factors contributing to Low Confidence in the NSE

Other regulatory factors mentioned by the respondents included lack of transparency in the allotment of government securities among subscribers, lack of proper measures to curb insider trading and lack of proper incentives to promote investments in the NSE.

4.5 Market Factors contributing to Low Confidence in the NSE

This section presents data on market factors contributing to low confidence in the NSE among professionals.

4.5.1 T Test for Market Factors contributing to Low Confidence in the NSE

Using a test value of 2, majority of the respondents observed that asset pricing was the major market factor contributing to low confidence in the NSE with a mean of 3.11, followed by exchange rates (mean of 3.05), interest rates and inflation (mean of 3.03), both market efficiency and market returns with a mean of 2.95, asset liquidity with a mean of 2.93 and lastly the investor perception of Kenyan economy with a mean of 2.80.

Table 4.10 T Test for Market Factors contributing to Low Confidence in the NSE

<table>
<thead>
<tr>
<th>Factor</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset pricing</td>
<td>148</td>
<td>3.11</td>
<td>1.464</td>
<td>.120</td>
</tr>
<tr>
<td>Interest rate and inflation</td>
<td>148</td>
<td>3.03</td>
<td>1.419</td>
<td>.117</td>
</tr>
<tr>
<td>Kenyan Economy</td>
<td>148</td>
<td>2.80</td>
<td>1.404</td>
<td>.115</td>
</tr>
<tr>
<td>Asset liquidity</td>
<td>148</td>
<td>2.93</td>
<td>1.443</td>
<td>.119</td>
</tr>
<tr>
<td>Market efficiency</td>
<td>148</td>
<td>2.95</td>
<td>1.374</td>
<td>.113</td>
</tr>
<tr>
<td>Market returns</td>
<td>148</td>
<td>2.95</td>
<td>1.364</td>
<td>.112</td>
</tr>
<tr>
<td>Exchange rates</td>
<td>148</td>
<td>3.05</td>
<td>1.423</td>
<td>.117</td>
</tr>
</tbody>
</table>

One-sample test was also conducted using the findings and table 4.11 below indicates that there was a significant relationship between market factors and low confidence in the NSE. The findings indicated that asset pricing had p<0.001, interest rate and inflation (p<0.001), perception of Kenyan economy(p<0.001), asset liquidity(p<0.001), market efficiency(p<0.001), market returns(p<0.001) and exchange rates (p<0.001).
Table 4.11 One-Sample Test for Market Factors contributing to Low Confidence

<table>
<thead>
<tr>
<th>Market Factor</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean Difference</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset pricing</td>
<td>9.265</td>
<td>147</td>
<td>.000</td>
<td>1.115</td>
<td>.88 to 1.35</td>
</tr>
<tr>
<td>Interest rate and inflation</td>
<td>8.807</td>
<td>147</td>
<td>.000</td>
<td>1.027</td>
<td>.80 to 1.26</td>
</tr>
<tr>
<td>Kenyan Economy</td>
<td>6.907</td>
<td>147</td>
<td>.000</td>
<td>.797</td>
<td>.57 to 1.03</td>
</tr>
<tr>
<td>Asset liquidity</td>
<td>7.803</td>
<td>147</td>
<td>.000</td>
<td>.926</td>
<td>.69 to 1.16</td>
</tr>
<tr>
<td>Market efficiency</td>
<td>8.375</td>
<td>147</td>
<td>.000</td>
<td>.946</td>
<td>.72 to 1.17</td>
</tr>
<tr>
<td>Market returns</td>
<td>8.436</td>
<td>147</td>
<td>.000</td>
<td>.946</td>
<td>.72 to 1.17</td>
</tr>
<tr>
<td>Exchange rates</td>
<td>9.013</td>
<td>147</td>
<td>.000</td>
<td>1.054</td>
<td>.82 to 1.29</td>
</tr>
</tbody>
</table>

4.5.2 Other Market Factors contributing to Low Confidence in the NSE

Other market factors mentioned by the respondents included lack of trust on Securities brokers, lack of knowledge on Securities market securities and poor performance of local listed companies.

4.6 Chapter Summary

The chapter explained the procedure followed on collecting data for this study. The findings were also presented systematically in line with the research questions presented in section 1.4 of this study.

The analysis aimed at highlighting the descriptive characteristics as well as establishing relationships between the various variables at play to help in understanding the data collected. The next chapter provides the conclusion, summary as well as the discussions and recommendations.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the results and findings that were presented in chapter four. It also presents the conclusions and recommendations made there from. The chapter is organized in line with the research questions and the discussions are focused on how the findings related to the factors contributing to low investor confidence in the NSE among professionals in USIU-A.

The Chapter begins with a summary of the findings presented in chapter four in a manner that answers the research questions and then compares the findings with the previous literature reviewed in chapter two of this study. This chapter also covers major conclusions and recommendations of the study.

5.2 Summary

The Purpose of the study was to evaluate the factors contributing to low confidence in Nairobi Securities Exchange among professionals in USIU-A. For purposes of the study, the following questions were asked; how do investors’ individual factors contribute to low confidence in the Nairobi Securities Exchange among professionals in USIU-A?; how do regulatory policies contribute to low confidence in the Nairobi Securities Exchange among professionals in USIU-A?; how do market factors contribute to low confidence in the Nairobi Securities Exchange among professionals in USIU-A?.

The research design was descriptive in nature. The target population of the study was 330 drawn from USIU-A staff and faculty members. The study employed stratified random sampling technique and a sample size of 180 members with 80 members being drawn from faculty and 100 members from office staff. The response rate was 82% and as such, 148 responses were gathered out of the 180 targeted. The study used primary data which was collected using survey method with the aid of a structured questionnaire consisting of both open and closed ended questions.

The questionnaire was pre-tested on four participants from the targeted professionals with similar characteristics like those of intended participants included in the study. The
responses of the four participants who took part in the pilot study were not included in the research findings. The questionnaires were personally administered to the professionals in USIU-A by the researcher.

The study used both SPSS version 23 and Ms Excel to analyze the collected data. The analysis was done using frequency distribution tables, T- Test and one-sample tests as descriptive statistical techniques and presented using pie charts and tables.

The results indicated that majority of the respondents tended to agree with a mean of 3.11 for both financial knowledge and herding effect as major individual factors associated with low confidence in NSE, both level of returns and investor sentiment (mean of 3.07), risk tolerance (mean of 3.06), social interaction (mean of 2.95) and investor preference with a mean of 2.93.

The study findings also showed that that disclosure requirements were the major regulatory policy contributing to low confidence in the NSE with a mean of 3.15. Political climate was also a major factor with a mean of 3.12 followed by capital controls with a mean of 3.11, trading rules (mean of 3.09), government securities (mean of 3.04) and tax policies (mean of 2.99).

The respondents felt that asset pricing was the major market factor contributing to low confidence in the NSE with a mean of 3.11, followed by exchange rates (mean of 3.05), interest rates and inflation (mean of 3.03), both market efficiency and market returns with a mean of 2.95, asset liquidity with a mean of 2.93 and lastly the investor perception of Kenyan economy with a mean of 2.80.

5.3 Discussions

This section presents discussions on the specific research objectives of the study based on the findings in comparison with the literature reviewed.

5.3.1 Individual factors contributing to low confidence in NSE

The study noted that some of the individual factors contributing to low confidence in the NSE among professionals include social interaction, financial knowledge, investor preference, risk tolerance, investor sentiment, herding effect and perceived level of returns.
The findings of this study disclosed that there was a significant relationship between the individual factors outlined above and low confidence in the Nairobi Securities Exchange. Those individual factors included; social interaction, financial knowledge, investor preference, risk tolerance, investor sentiment, herding effect and perceived level of returns.

Most respondents indicated that their confidence in the NSE was influenced by their financial knowledge to a large extent. This finding agreed with Statman (2014) who noted that investors needs are influenced by the level of their financial literacy among other factors. As the level of financial knowledge increases, investors are not only able to make technical investment decisions but also draw better comparative judgments of various investment opportunities. Brown (2009) also noted that financial literacy increases risk tolerance among investors thus make them pursue riskier investments instead of committing all their funds in the Securities markets. Financially literate respondents were seen to have lower confidence in the NSE mostly due to the level of returns and perceived complications in the trading process.

Herding effect was also identified as a major factor contributing to low confidence in the Securities exchange whereby the respondents indicated that they preferred taking up similar investments with their peers. This finding is reinforced by Tan & Chiang (2008) who state that herding can cause some emotional biases, including conformity, congruity and cognitive conflict, the home bias and gossip. This is mostly common among investors with less financial knowledge who rely on herding as a reliable source of information. Some investors tend to base their investment decisions on what their peers are doing. This is mainly the case if there appears to be certainty in particular investments.

The study also identified level of returns and investor sentiments as other individual factors that contributed to low confidence in the NSE among professionals. Most respondents indicated that they did not consider the level of net returns in the NSE attractive. Their sentiments towards the NSE were also negative and this contributed to their low confidence.

This finding is corroborated by Brown and Cliff (2004) who provided that although investor sentiments hugely influence investment decisions. Baker and Wurgler (2006) studied the effect of investor sentiment on the US Securities market and noted that
investor sentiment influenced investor confidence in the Securities market especially with regard to subjectively valued Securities.

According to this study risk tolerance also had a significant contribution to the low confidence in the NSE. Kathleen (2005) indicates that investor risk tolerance increases if they have successful past experience and decrease in case of having unsuccessful experience of past. The Nairobi Securities Exchange has experienced several shocks in the past notably the collapse of Securities brokerage firms under fraudulent circumstances and also listed companies. Insider trading and fraud has made investors brand investments in the NSE as risky ones.

The study further identified other individual factors that contribute to low confidence in the NSE. These include; negative past experiences in the NSE, lack of access to timely information about the NSE and investor desire for liquidity

5.3.2 Regulatory Factors Contributing to low confidence in NSE

The regulatory factors contributing to low confidence in the NSE include amongst others capital controls, transparency and disclosure requirements, political climate, tax policies, trading rules and government securities such as treasury bills and bonds.

The study findings showed that there is a significant relationship between regulatory factors and low confidence in the NSE. Majority of the respondents noted that the government lacked proper transparency and disclosure requirements for corporations listed in the NSE and as such there was major room for price inefficiency and insider trading. This also affected the respondents’ lack of confidence in the information available in the public domain relating to the listed companies. They therefore felt that the information was not accurate due to lack of proper infrastructure and reporting mechanisms by the government. This finding agreed with earlier studies by Baamir (2008) who notes that market discipline can be imposed on institutions by investors, depositors, customers, and creditors if there is a high level of transparency that will improve the institutions' management of its activities and risk exposure in a manner that is prudent and consistent with its business objectives.

The survey also established political climate as another factor that contributed to low confidence in the Nairobi Securities Exchange among investors. This was more so due to the unpredictable and sometimes hostile political environment in the country. Non-
conducive political climate not only results to poor returns for local companies but also discourages multinationals from entering the economy. Zakaria (2008) conducted a study on the Pakistan market and concluded that political instability and inconsistent government policies are some of the major factors that discourage investors.

The findings of this study also indicated that capital controls and trading rules also played a significant role on the confidence of investors in the NSE. Majority of the respondents portrayed discomfort with the level of control in the NSE and also the trading rules describing them as complicated. These findings were corroborated by Kaplan and Sommers (2009) who suggested that capital controls can prove ineffective, undercut market confidence and be used to delay needed adjustments. Kaminsky and Schmukler (2000) also noted that while capital controls were effective in regulating the interest rates in Malaysia, they failed in boosting investor confidence.

The study also established other regulatory policies contributing to low confidence in the NSE which included lack of transparency in the allotment of government securities among subscribers, lack of proper measures to curb insider trading and lack of proper incentives to promote investments in the NSE.

5.3.3 Market Factors contributing to low confidence

The major market factors contributing to low confidence in the NSE amongst others were asset pricing, interest rates and inflation, exchange rates, market efficiency, asset liquidity and investors’ perception of the Kenyan economy.

The study established that majority of the respondents felt that asset pricing was the major factor contributing to low confidence in the NSE. Asset pricing is mainly affected by the flow of information and efficiency in absorbing that information in the market. Mabhunu (2004) notes that in efficient markets, security prices at any instance are unbiased and they reflect all the available information based on the Securities’ expected future cash flows as well as the risk involved in holding such a security. Such markets would therefore provide accurate signals to allocate resources since the Securities prices are representative of their intrinsic value.

The study also noted that interest rates, inflation and exchange rates also significantly influenced the investors confidence in the Securities market. The results finding is supported by Nissim (2003) and Zhou (1996) noted that long-term interest rate explain a
major part of the variation in price-dividend ratios and suggests that the high volatility of the Securities market is related to the high volatility of long-term bond yields and may be accounted for by changing forecasts of discount rates. The high volatility of yields causes a lot of uncertainty in the investments and rational investors shy away from such markets. This can be said to be the case in the NSE due to the fact the country’s interest rates keep fluctuating from time to time. The rate of inflation on the other hand normally affects the cost of living negatively thus reducing the level of investable income among the citizens.

The respondents also indicated that their perception on the Kenyan economy also contributed to their low confidence in the NSE. This finding was supported by an earlier study by Kiplangat, Bitok, Tenai, and Rono (2009) who stated that confidence in the economy and specifically in the capital markets was a critical driver of economic and financial fluctuations and as well as that of the business cycle. They went on to state that as investor confidence increases, investors want to buy consumer goods, durables and invest at prevailing prices, whereas when confidence decreases, spending and risk-taking tend to fall.

Other market factors mentioned by the respondents included lack of trust on Securities brokers, lack of knowledge on Securities market securities and poor performance of local listed companies thus making investments unattractive.

5.4 Conclusions

5.4.1 Individual Factors Contributing to low confidence in NSE

The findings of this study have sufficiently shown that social interaction, financial knowledge, investor preference, risk tolerance, investor sentiment, herding effect and perceived level of returns are some of the individual factors that contribute to low confidence in the NSE.

Social interaction and herding effect cause emotional biases against the NSE while financial knowledge influences the investor’s risk tolerance, sentiment and preference thus contributing to low confidence in the NSE.

5.4.2 Regulatory Factors Contributing to low confidence in NSE

The study has also confirmed that capital controls, transparency and disclosure requirements, political climate, tax policies, trading rules and government securities such
as treasury bills and bonds are among the regulatory factors that contribute to low confidence in the NSE. Majority of the respondents felt that the government lacked proper transparency and disclosure requirements for corporations listed in the NSE and as such there was major room for market inefficiency and insider trading. Tax policies affects the net returns to the investors and political climate affects the overall performance of the NSE.

**5.4.3 Market Factors Contributing to low confidence in NSE**

The study established that asset pricing, interest rates and inflation, exchange rates, market efficiency, asset liquidity and investors’ perception of the Kenyan economy are among the major market factors causing low confidence in the NSE among investors.

The findings of this study indicate that respondents were skeptical about asset pricing in the NSE which is mainly influenced by information efficiency in the market. The trading process and lack of many willing buyers influence asset liquidity while interest rates and inflation affects the level of returns and also the investment decision.

**5.5 Recommendations**

**5.5.1 Recommendations for Improvement**

**5.5.1.1 Individual factors contributing to low confidence in NSE**

Based on the findings of this study, it is clear that the identified factors need to be addressed in order to boost confidence in the NSE. The responses given by the respondents can be used to make improvements in the NSE with an aim of boosting the confidence in the market among investors.

Proper civil education and dissemination of information relating to NSE needs to be done to boost investor confidence. This would not only help reduce the negative perception of the NSE among investors but also avail vital information on the available products. The regulatory authority also needs to broaden the market in order to attract more investors.

**5.5.1.2 Regulatory Factors contributing to low confidence in the NSE**

The survey showed that factors associated with market infrastructure, capital controls and trading rules contribute majorly to the low confidence in NSE. The regulatory authority therefore needs to address these issues and especially by tightening disclosure
requirements and putting proper measures in place to prevent insider trading. There is also need for changes on the regulatory policies relating to taxation and enhancement of the country’s political climate. The trading process should be made easier and proper rules should be developed to deal with fraudulent activities surrounding Securities issues especially in the primary market.

5.5.1.3 Market factors contributing to low confidence in the NSE

The survey findings indicated that factors related to market efficiency and asset pricing were major contributors to low confidence in the NSE. The market regulator therefore needs to put measures in place to eliminate biases in asset pricing with an aim of ensuring that all assets are accurately priced and that there is no room for investor exploitation. This could include enhancement of the price formation mechanism through proper incorporation of accurate information in the trading process. Volatility in the level of inflation and interest rates also need to be addressed in order to enhance the perception on the Kenyan economy among investors.

5.5.2 Suggestions for Further Research

The aim of this study was to evaluate the factors contributing to low investor confidence in the NSE among professionals in USIU-A. The findings of this study have exposed further gaps which need to be studied. Future research should be conducted to establish the extent to which individual factors influence confidence in the NSE and also analysis of possible regulatory policies to boost confidence in the NSE. Further, this study was limited to professionals in USIU-A and the same objectives could be used to study other investors in the country.
REFERENCES


APPENDICES

APPENDIX A: COVER LETTER

Peter Maina,
United States International University,
P. O. Box 14634-00800,
Nairobi, Kenya.
Date:

Dear Respondent,

I am a graduate student at United States International University in Nairobi carrying out a research study for the completion of my Masters degree in Business Administration. My research topic is ‘Evaluation of factors contributing to low confidence in Nairobi Securities Exchange among professionals in USIU-A’.

Attached with this letter is a questionnaire to help collect data for the research. I humbly request you to aid my research by filling it out.

This is an academic research and confidentiality is strictly emphasized. Your name will not appear anywhere in the report.

Sincerely,

Peter Maina.
APPENDIX B: SURVEY QUESTIONNAIRE

Please respond to the questions below by ticking in the boxes provided or filling in the blank spaces provided.

SECTION I: General Information.

1. What is your Gender?  
   Male ☐ Female ☐

2. What is your profession? ..................................................

3. What is your highest level of Education?
   - College/Technical School/Polytechnic ☐
   - University ☐
   - Other (Kindly specify) .................................

4. What is your level of Income?
   - 21,000 – 40,000 KES ☐
   - 41,000 – 60,000 KES ☐
   - 61,000 – 80,000 KES ☐
   - 81,000 – 100,000 KES ☐
   - Above 100,000 KES ☐

5. a) Are you currently involved in any investing activity?
   - Yes ☐
   - No ☐
b) If Yes, what is the level of your financial Knowledge?

Advanced  □

Moderate □

Elementary □

c) If your answer to question 6 above is yes, which finance courses have you done?

………………………………………………………………………………………..
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6. a) Have you ever invested in NSE?

   Yes □

   No □

b) If yes, how would you rate the returns?

   Good □

   Average □

   Poor □
c) Did you make the investment decision or a broker made it for you?

I made the decision □

A broker made the decision for me □

d) How would you describe the trading process at the NSE?

Very Easy □

Easy □

Complicated □

Not Sure □

7. Having previously participated in the NSE, what improvements would you suggest to be done on the trading process at NSE?

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PART II: INDIVIDUAL FACTORS INFLUENCING INVESTOR CONFIDENCE IN NSE

9. Kindly tick the space corresponding to your personal opinion with regard to the impacts of investor’s personal factors on the confidence in NSE.

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social interaction influences your confidence in NSE</td>
<td>(5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Knowledge influences your confidence in NSE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investor preference influences your confidence in NSE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk tolerance influences your confidence in NSE</td>
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<tr>
<td>Investor sentiment influences your confidence in NSE</td>
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<tr>
<td>Herding effect influences your confidence in NSE</td>
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<tr>
<td>Perceived level of returns influences your confidence in NSE</td>
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</tbody>
</table>

What other individual factors affects your confidence in NSE? ………………………………………………………………………………………………………
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10. Kindly tick the space corresponding to your personal opinion with regard to the impacts of regulatory policies on investor confidence in NSE.

<table>
<thead>
<tr>
<th>Policy</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Controls influence your confidence in NSE</td>
<td></td>
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<tr>
<td>Transparency and disclosure requirements influence your confidence in NSE</td>
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<tr>
<td>Political climate influences your confidence in NSE</td>
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<tr>
<td>Tax policies influence your confidence in NSE</td>
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<tr>
<td>Trading rules (such as CDS account requirement and Brokers) influence your confidence in NSE</td>
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</tr>
<tr>
<td>Government securities such as Treasury bills and Bonds influence your confidence in NSE</td>
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</tbody>
</table>

What other regulatory policies affect your confidence in NSE?

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PART IV: MARKET FACTORS INFLUENCING INVESTOR CONFIDENCE IN NSE

11. Kindly tick the space corresponding to your personal opinion with regard to the impacts of market factors on investor confidence in NSE.

<table>
<thead>
<tr>
<th>Market Factor</th>
<th>Strongly agree (5)</th>
<th>Agree (4)</th>
<th>Neutral (3)</th>
<th>Disagree (2)</th>
<th>Strongly Disagree (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Pricing influences your confidence in NSE</td>
<td></td>
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<tr>
<td>Interest rate and inflation influence your confidence in NSE</td>
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<tr>
<td>Your perception of the Kenyan economy influences your confidence in NSE</td>
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<tr>
<td>Asset Liquidity influences your confidence in NSE</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market efficiency influences your confidence in NSE</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Level of Market Returns such as rate of dividends and interest influence your confidence in NSE</td>
<td></td>
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</tr>
<tr>
<td>Exchange rates influence your confidence in NSE</td>
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</tbody>
</table>

What other market factors affect your confidence in NSE?

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Thank you for your honest feedback.
## APPENDIX C: RESEARCH BUDGET

<table>
<thead>
<tr>
<th>Item</th>
<th>Total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Proposal development</strong></td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>3,000.00</td>
</tr>
<tr>
<td>Printing &amp; Photocopying</td>
<td>5,500.00</td>
</tr>
<tr>
<td><strong>2 Pilot testing</strong></td>
<td></td>
</tr>
<tr>
<td>Material</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Printing &amp; Photocopying</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Communication &amp; Travel costs</td>
<td>2,000.00</td>
</tr>
<tr>
<td><strong>3 Data collection</strong></td>
<td></td>
</tr>
<tr>
<td>Printing &amp; Photocopying</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Communication &amp; Travel costs</td>
<td>2,000.00</td>
</tr>
<tr>
<td><strong>4 Data analysis</strong></td>
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</tr>
<tr>
<td>Material cost</td>
<td>500.00</td>
</tr>
<tr>
<td>Printing</td>
<td>1,000.00</td>
</tr>
<tr>
<td><strong>5 Report compilation</strong></td>
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</tr>
<tr>
<td>Printing &amp; Photocopying</td>
<td>5,500.00</td>
</tr>
<tr>
<td>Binding</td>
<td>1,000.00</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>28,500.00</strong></td>
</tr>
</tbody>
</table>